MICROENTERPRISE DEVELOPMENT AS AN ECONOMIC ADJUSTMENT STRATEGY

Economic Development Administration
United States Department of Commerce

CONTENTS

Executive Summary

In FY 1997, the Economic Development Administration (EDA) solicited a proposal for a study that would: 1) ascertain whether EDA should encourage microenterprise programs to help alleviate structural economic problems; 2) examine the range of microenterprise programs and the distressed areas in which these programs work; and 3) determine in what ways the microenterprise strategy can complement existing EDA programs. Between September 1997 and September 1998, Rutgers University conducted the study. This report presents the project's findings.

PURPOSE OF THE STUDY

Economic distress occurs for a variety of reasons and manifests itself differently in different places. Regions that relied on defense-related industries have had to arrive at conversion strategies—often with EDA's help—in the wake of base closings. Resource-dependent regions, such as the Iron Range in northeastern Minnesota and the timber and fishing regions of the Pacific Northwest, cope with resource depletion, international competition, and/or a shift to substitute products. Older industrial regions, particularly the Northeast and Midwest, suffer from the movement of industry to the South and West. Strategies supported by EDA include local economic development planning, infrastructure investments, business incubation, tourism development, and revolving loan funds. This study examines how, specifically, the microenterprise strategy can complement EDA's existing tool kit of policies and programs that help these regions adjust to changes in their economies.

Microenterprise development has been touted by policymakers and the media as a way to alleviate poverty and create jobs both in the United States and in developing countries. Unlike most strategies designed to help people become economically self-sufficient, microenterprise programs help many people do a better job of something they are already doing to survive—starting small businesses. Instead of trying to channel people into the mainstream economy, these programs teach those with an interest in and inclination for self-employment how to strengthen their entrepreneurial skills, and start and stabilize their businesses. These programs motivate people who are interested in taking responsibility for their own lives and futures and provide them with the tools they need to make that happen. The relational skills that these programs produce, particularly during the borrowing process, enable participants to take advantage of other programs and to create critical support networks.

We know little, however, about the effectiveness of microenterprise development in combating economic distress. EDA is the primary U.S. government agency focusing on helping distressed economies achieve stability and growth. *Should EDA encourage microenterprise programs as a way to help alleviate structural economic problems?*

Access to credit and training—key ingredients for the creation, stabilization, and expansion of small businesses—is lacking in economically distressed areas of the United States. Microenterprise programs, which provide these two ingredients, have quickly multiplied in response to this need. This study illustrates the ways in which programs tailor themselves to the people and places they serve.

Thus far, little work has been done in studying the outputs, outcomes, and impacts that microenterprise programs produce in economic development terms. Existing research on microenterprise programs tends to focus on their effectiveness as social welfare programs rather than economic development tools. These studies (Clark and Huston 1993; Raheim and Alter 1995; Spalter-Roth, Soto, and Zandniapour 1994) also tend to evaluate programs at the level of the individual rather than taking the larger view of place-based outcomes. This research helps to fill that gap. We focus on the relationship between the microenterprise strategy and the local economy in order to determine whether and how microenterprise programs can help to alleviate economic distress.

Case studies of the following six microenterprise programs constitute the core of this research:

- The Institute for Social and Economic Development (ISED), Iowa
- The Northeast Entrepreneur Fund (NEF), Minnesota
- Women Entrepreneurs of Baltimore (WEB), Baltimore, Maryland
- West Company, Mendocino County, California
- Women's Economic Self-Sufficiency Team (WESST corp), New Mexico
- Working Capital, Lawrence, Massachusetts

All of the programs chosen for study are located in areas that have been hard hit by economic restructuring and/or are experiencing economic distress for some other reason. One (West) is based entirely in a rural area, two (WEB and Working Capital) operate in urban areas, three (WESST, ISED, and NEF) work in areas that contain both urban and rural areas, and two (ISED and WESST) serve entire states. In addition, we chose programs that have:

- been in existence for at least five years, giving them a long enough track record to be studied;
- had relatively stable leadership, allowing for institutional memory; and
- maintained solid records since they began operations.

All are representative of mature microenterprise programs currently operating in the United States.

FINDINGS FROM CASES

Previous studies of microenterprise development focus on either the programs, the entrepreneurs, or the businesses. Given the orientation of these studies, our findings are grouped in field, program, business, and entrepreneur categories. These findings, listed below, are more completely discussed in Chapter 2.

Field

- **The number of programs, as well as activity within individual programs, is in a period of rapid expansion.**

  Whereas only a handful of programs were in operation ten years ago, current estimates place the number of U.S. microenterprise organizations at close to 400. According to Malcolm Bush of the Woodstock Institute, the "unbelievable" rate of expansion "speaks to the fact that there is a sector of economic problems we are not touching with regular economics."

- **The microenterprise field has begun to mature.**

  The programs that have existed the longest, including most of those studied for this project, have entered a mature phase. They are stable, have begun to diversify, and can talk much more precisely about what their mission is and how they plan to fulfill it than they could even five years ago. This maturity has also created a group of people who have been working in the field for more than ten years and have begun to conceive of and fill different needs.

Programs

- **Microenterprise programs respond to the economic context in which they operate and adjust their mix of training and lending services accordingly.**

  The more mature and most successful organizations have a greater understanding about the region in which they work. Programs that operate in an area with a low-skilled population are likely to spend more resources on training than programs in which the target population has greater skills. This is particularly true of inner-city programs and those serving clients who have depended on public assistance for a long time. Programs that operate in remote rural areas must focus on the problem of access to markets, whereas this tends not to be an issue in more urban areas. In addition, programs continue to respond to changes in the economic and political landscape. For example, many programs have created innovative responses to welfare reform.

- **Microenterprise programs are learning organizations that continually refine their methods.**

In its 1993 Update, the Mott Foundation found that 61 percent of the programs surveyed had changed their lending standards since they began (1993, 5). These changes might involve implementing stricter, more "banklike" procedures, adding peer lending, requiring participants to borrow in "steps" from smaller to larger loans, or narrowing or expanding the target market. In some areas, clear trends exist.

- ❒ **Programs are extremely diverse in terms of size, mission, type of lending, and target population.**

Each of our six case study programs focuses on a somewhat different population within its region and offers different mixes of lending and training as a result. This diversity reflects the diversity of goals that programs pursue. Even though the basic goal of providing credit and training to entrepreneurs characterizes all programs, the emphases range from working mostly on self-esteem to poverty alleviation to more traditional economic development goals of job creation and business expansion. All programs have a common mission of helping disadvantaged people explore the potential of self-employment as a way to become self-sufficient.

- ❒ **Most programs do some form of targeting and/or directed outreach.**

Although nearly all microenterprise programs gear their services to low-income entrepreneurs, the vast majority also target or emphasize serving specific populations ranging from women to displaced workers to migrant farm workers. Programs that target do so in recognition of structural problems that make it difficult for certain groups to gain access both to employment in the formal economy and to resources such as credit and training. They also seek to combat regional employment problems. For example, West Company targets unemployed timber and fishery workers and Working Capital targets Latino immigrants.

- ❒ **The transaction cost of loans made by microenterprise programs is high, although overall cost per client served is low.**

We found that the cost of making loans is very high, especially when compared to traditional credit institutions. However, since most microenterprise clients do not receive loans directly from their programs, the cost per client served is relatively low.

- ❒ **Microenterprise programs have little trouble raising capital for their loan funds, but covering operating costs (which include training) continues to be a struggle.**

Almost all of the program directors we interviewed said that lending resources were available. All stressed the need for additional resources for their training and technical assistance programs. This situation has arisen because many funders and policymakers continue to think of microenterprise development as a credit strategy that makes loans to poor people who then pay them back. Although many programs do provide access to credit, they have increasingly emphasized the training component of their programs.

- ❒ **Virtually all programs provide training as well as lending.**

As programs have matured, they have increasingly incorporated training into the range of services offered. Nearly all programs require borrowers to undergo some basic business training in sales, marketing, and finance, and many require would-be entrepreneurs to write a business plan. Jack Litzenberg, a funder with the Charles Stewart Mott Foundation, which has funded microenterprise programs in the U.S. from the beginning, claims that microenterprise programs "provide an entry point into understanding how the economy works." Staff at nearly all programs also maintain that starting a business is not the only measure of success. They claim that the process of going through their training programs makes clients more employable, and that clients make better decisions about how to achieve self-sufficiency and whether self-employment is the right choice for them.

- Microenterprise programs often catalyze networks of social service providers and community groups.

Due to the multiplicity of many program clients' needs, we found that all of our case study programs enjoyed strong relationships with other service providers. More and more, programs are formalizing cooperation by creating partnerships, affiliates, and consortia as a means of reaching scale and reducing direct costs. These relationships differ from place to place.

In terms of lending, the model of the approachable, small-town banker is rapidly disappearing in much of this country, making it even harder for high-risk entrepreneurs to obtain access to business credit. In some ways, microenterprise programs have taken over this kind of character lending, both by making loans directly to entrepreneurs who "do not look good on paper" and by vouching for them with banks that respect and trust the work these programs do.

The community development element of microenterprise program activity—which involves connecting people to each other and to critical organizations, training residents, and helping them to access resources—is often overlooked, perhaps because this aspect is more difficult to see and evaluate.

- Scale and sustainability are two big problems facing microenterprise programs.

Given the small size of loans and high cost of training, it will be difficult—if not impossible—for programs to achieve any kind of self-sufficiency. Programs are reliant upon funding from a mix of sources, both private and public. Clark and Kays (1995) make the case that scale and sustainability are appropriate success paradigms in the less-developed-country context, but that U.S. programs require a different paradigm that may include indicators such as the ability to graduate clients to the formal banking sector, the ability to deliver cost-effective technical assistance and training, and the ability of programs to find cost-effective and client-effective service delivery mechanisms (1995, 3-4).

Businesses

- Most microbusinesses are home-based sole proprietorships operating in the service sector, and most are less than five years old.

Nearly half of the microentrepreneurs we interviewed have businesses in the service sector. Fifty-three percent of the businesses of self-employed former welfare recipients and an even higher percentage of the businesses of self-employed current welfare recipients operate in the service sector. Service businesses require little start-up capital, gain easy entry into the market, and often require little in the way of overhead, equipment, and space. Self-employment is very labor intensive. Twenty-nine percent of the microentrepreneurs surveyed for the SELP study report working more than 60 hours per week, and the majority of these (58 percent) devote between 76 and 100 percent of their time to their business (Clark and Kays 1995, 20).

- ### Self-employment by itself does not sustain most of microentrepreneurs' households.

We found in most cases that self-employment is used in conjunction with other income sources—a practice known as income packaging—to meet household expenses. This usually means a spouse with a waged job (that provided some benefits, like health insurance) or additional employment of the microentrepreneur in the waged sector. The fact that wage labor does not adequately provide for many families' needs reflects the growing phenomenon of working poverty. Given that many current jobs offer only temporary or part-time employment, some entrepreneurs may vary the energy they put into their business depending on the other opportunities available to them at a particular time. Conversely, microentrepreneurs may retain formal wage labor in order to ensure adequate income while their business is stabilizing. Although the majority of microentrepreneurs have not become self-sufficient through their businesses, the business income that they contribute in many cases raises the household over the poverty line.

- ### The majority of these businesses fail to provide any kind of benefits, such as health care and child care.

Of the entrepreneurs interviewed for this project, only three of the 17 with employees said that they provided benefits for those employees. More than 40 percent of all microentrepreneurs interviewed for this project have no health insurance. Of those that do, most obtain it through a spouse's job or public assistance. Just 10 percent of those interviewed reported having health insurance through their business.

- ### Microenterprises create few jobs.

In our study group, only 29 percent of the entrepreneurs interviewed reported having any employees. Those 17 reported a total of 41 part-time and 28 full-time employees. Low job creation results from a variety of factors. First, most of these businesses are young and still in the process of stabilization. Second, many operate in distressed areas where the potential for growth is not great. And third, many of the entrepreneurs we interviewed are not interested in growing their businesses. They worry about taking on the responsibility of other workers and about the added work of managing a large business.

- ### Most microentrepreneurs have some business-related debt.

Of all the microentrepreneurs interviewed for this project, 76 percent had some business debt. This ranged from loans from family members for a few hundred dollars to tens of thousands of dollars in home equity and other commercial loans. Loans were used for all purposes, from operating expenses to purchases of specialized equipment to obtaining inventory and supplies. And while some microentrepreneurs obtained financing solely from a microenterprise program, most listed multiple sources of financing, including "traditional" credit sources such as commercial bank loans, credit unions, and vehicle financing agencies. We also found that many microentrepreneurs finance their business with credit cards.

Entrepreneurs

- ### Microentrepreneurs need more than just credit.

Most microentrepreneurs cited the training they received as being just as important as—if not more important than—any financing. We found that only 22 percent of the microentrepreneurs we interviewed had any prior business training. Although many had had critical experience in their line of business, they lacked the business training and skills to help them become successful entrepreneurs.

- ### Microentrepreneurs exist across a broad socioeconomic spectrum.

Microenterprise development in the United States was originally targeted at the lowest end of the socioeconomic spectrum. Our study and other research find that gaps in access to credit and training exist across the categories of race, class, and gender. The range of household income reported by our case study programs indicates that income level is not the only factor impeding access to credit and training.

- ### Most microentrepreneurs have had some college education and some experience in their business.

While many program participants are low-income, nearly all existing data shows that the typical microentrepreneur is a skilled worker who pursues self-employment in order to increase her income or improve her life. In addition, microentrepreneurs are relatively well-educated. Ninety-six percent of the microentrepreneurs interviewed for this research have completed high school or have obtained an equivalency degree. Forty-six percent of the study respondents have had some college or hold a technical degree, and 24 percent of the participants have a college degree. An additional 10 percent have completed some postgraduate work.

- ### Most microentrepreneurs are women.

Eighty percent of the microentrepreneurs interviewed for this project are women. While many programs specifically target women, even those that do not find that the majority of their clients are women. Increasingly, women are charged with ensuring the economic and social stability of households, and they often need a wider range of options to help them. Their use of microenterprise programs is evidence of their willingness to experiment with alternative ways of achieving self-sufficiency.

- ### Microentrepreneurs can be divided into two types.

The SELP study found that the majority of respondents (53 percent) sought self-employment because they needed more money or because they were unemployed. This group may have viewed self-employment not as a real choice but rather as their only economic option. It is increasingly difficult to find jobs that pay a family wage and provide benefits.

A second group is comprised of those generally possessing a skill or love for a particular activity that could serve as the basis for starting a business. These “true entrepreneurs” would always prefer to work for themselves.

- ❒ Most microentrepreneurs have strong support networks and are fiercely determined to succeed.

  The entrepreneurs interviewed for this study work well in excess of a standard 40-hour week. And when times get tough, they work harder, either putting more energy into their businesses or picking up extra side work to supplement their income. They also rely heavily on family and friends. Many of the entrepreneurs we interviewed told stories about family members who watch their children or work in their businesses.

- ❒ Microentrepreneurs have a strong attachment to place.

  Although the economic literature views labor as a mobile input to production, many of the entrepreneurs we interviewed are very attached to the places in which they live, regardless of how poor the economy is. Often they pursue self-employment because they perceive it to be the best available option for making some money while continuing to live where they live. The segment of the population that is attracted to the microenterprise strategy is a segment that does not want to move. The businesses that they create are also unlikely to be footloose. Therefore, although they are small and may take a long time to develop, these businesses should be perceived as resources and nurtured.

MICROENTERPRISE DEVELOPMENT COMPARED TO OTHER ECONOMIC DEVELOPMENT STRATEGIES

Economic development has to do with enhancing the economic health of a region. Economic development programs and policies aim to accomplish this mission by supporting the generation, stabilization, expansion, and attraction of businesses to a particular area. Typical economic development strategies include tax abatements, subsidies, and low-interest loans to businesses. Microenterprise programs work within the economic development sphere because they provide loans and training that result in business creation and expansion.

Microenterprise program staff rarely see their programs strictly as job creation mechanisms. As a result, microenterprise program goals include job creation as only one of the range of outcomes to be produced. Most programs focus on self-sufficiency through self-employment for the particular microentrepreneur but also consider decisions not to pursue self-employment or to obtain a regular job as successes. Despite this, microenterprise programs perform well when compared with other job creation strategies.

The fact that microenterprise development is a relatively small strategy that requires a long time frame in order to show results creates a policy barrier that the microenterprise strategy has been forced to confront. Microenterprise development is not a readily accepted economic development tool because it combines elements of the traditionally separate policy categories of economic development and poverty alleviation. In recent years, both of these fields have begun to shift in ways that have created room for strategies such as microenterprise development to emerge. The shifts in economic development include a movement from business attraction and retention to business generation and an orientation based on investment in a particular area.

This new orientation of economic development, as well as the logic by which the microenterprise strategy has emerged and gained in popularity, seems relatively straightforward. Microenterprise programs focus on business generation rather than business attraction. In addition, programs are usually conceived and operated at the local level by grassroots organizations. Finally, most microenterprise programs began as private nonprofit organizations, bringing in local, state, and/or federal government partners at a later stage. This structure has enabled both the programs and their public partners to behave in a more entrepreneurial fashion.

The shifts in approaches to poverty alleviation, which are admittedly more theoretical than practical, include universal programs with a targeted component rather than strictly targeted programs and increased use of asset-based strategies (such as the Earned Income Tax Credit) as opposed to income-based strategies (such as Unemployment Insurance). The microenterprise strategy clearly makes sense in light of these changes when considering how best to alleviate poverty. Programs exist in both targeted (WEB, ISED) and universal (Working Capital) forms. In addition, the microenterprise strategy is clearly based on a philosophy of asset building rather than maintenance. The goal of most microenterprise programs is to provide people with access to the resources they need in order to attain economic self-sufficiency.

The target population of most microenterprise programs has no other access to these critical resources. Therefore, these programs function to create a new class of entrepreneurs and a set of businesses that most likely would not exist otherwise. Microenterprise programs also contribute to economic development outcomes indirectly, through the training they provide and economic literacy skills they teach. Many of the program participants who do not go on to start businesses leave programs able to participate in the mainstream economy in ways that they could not prior to their involvement with microenterprise programs. Microenterprise development is a valuable tool in the economic development toolbox and does aid in economic adjustment. This strategy fills a niche that no other strategy or program fills.

In fact, microenterprise development has a cost per job created comparable to more traditional forms of economic development. As illustrated in Table ES.1 and more fully discussed in Chapter 3 of this report, we found microenterprise development to have a cost per job created similar to that of other traditional development strategies.

TABLE ES.1
Cost per Job for Various Economic Development Strategies

Type of Economic Development	*Cost per Job*
Industrial Recruitment	
Tax cut only *(Bartik)*	$1,906 to $10,800
Automobile Plant Attraction *(Milward and Newman)*	$11,000 to $50,580
Business Incubation	
Business Incubation Works *(Molnar et al.)*	$1,500 to $2,000
EDA-Sponsored Programs	
Public Works Program *(Burchell et al.)*	$4,857
Microenterprise Development	
NEF	$4,900 to $5,000
ISED	$4,114
Women Venture	$6,155

Sources: Bartik (1992); Milward and Newman (1989); Molnar et al. (1997); Burchell et al. (1997b); program data.

More important than the actual cost per job created is the appropriateness of a particular economic development strategy for a region. In rural regions, industrial recruitment strategies are simply not successful; microenterprise development can, on the other hand, serve as a viable long-term strategy for a region. Unlike industrial recruitment—where a plant will open with 1,500 jobs—microenterprise programs take time to start and develop successful businesses. Across our case study programs, we found that a microentrepreneur will work with a program for several months before starting his or her business; it will then take additional time to nurture that business into a successful enterprise. Because even the oldest microenterprise programs have existed for only ten years, we do not know the true potential of this strategy as a regional economic development tool.

POLICY RECOMMENDATIONS

Recommendations at the Federal Level

- **Educate economic development planners and policymakers about the practice of microenterprise in the United States.**

  Misconceptions about the practice of microenterprise still abound in the economic development community. Most often, the distinction between microlending and microenterprise is misunderstood. By showing the critical value of the training elements of microenterprise, better-informed policy can result.

- **Integrate microenterprise development into local economic development strategies.**

  Support for microenterprise was strongest in places where it was part of an overall economic development program and where economic development practitioners did not expect these programs to produce results beyond their capacity. In these cases, programs fill a niche that adds value to state or regional economic development planning.

- **Support operating expenses.**

  Program directors and field experts across the board expressed the need for greater funds for general operating expenses. Sufficient resources are available for programs' lending activity. However, the increased emphasis among programs on training means that they require more in the way of operating support and will be less likely to become self-sufficient through their lending activity. Funders who expected these programs to achieve self-sufficiency must revise their expectations and definitions of program success.

- **Support proven programs and models.**

  The oldest microenterprise programs are just passing their ten-year mark. Such programs have continually refined and improved their methods for serving target populations. Leaders in the field should be consulted as to what works.

- **Coordinate policy across public agencies.**

  Federal support for small business development currently comes from a number of different organizations. The SBA, the CDFI program of the Treasury Department, and welfare reform programs under HHS all have different objectives and different criteria. Such support should be coordinated at the federal level.

- **Support state-level intermediaries.**

  These organizations provide a crucial link between funders and practitioner organizations. Intermediaries are state-level organizations that raise federal funds to support the microenterprise strategy, use that support to leverage state funds, and channel these resources to local microenterprise programs throughout the state. Intermediaries are new players in the microenterprise field and are as yet unproved, but early lessons from Montana and Nebraska suggest that this type of organization provides several benefits.

- **Support the design and use of appropriate evaluation mechanisms.**

  All programs are not equal and should not be judged by the same standards. In addition, the fact that microenterprise development is a long and complex process means that more longitudinal evaluation must be conducted. Finally, given that programs and entrepreneurs define success broadly, indicators of success must be expanded beyond those used in traditional economic development evaluation (e.g., job creation, income generation, tax base enhancement). The Aspen Institute's MICROTEST strategy is making progress in this area, incorporating a range of programs into a process of determining appropriate indicators.

Recommendations at the Program or Regional Level

- **Encourage entrepreneurs to pursue growth/emerging business sectors.**

  Entrepreneurs should be encouraged to pursue sectors that have the greatest potential to yield incomes at levels that support self-sufficiency. Microenterprise assistance programs are more likely to promote viable small businesses if they avoid traditional small business fields, targeting their assistance instead to firms operating in the emerging lines of business. At the same time, we recognize that training people for emerging sectors, rather than what they are already good at, would require a different program intervention.

- **Help qualified entrepreneurs secure larger loans.**

  Once entrepreneurs have successfully started their businesses, they often have greater capital needs. They should be assisted in making the transition from microlending to traditional credit mechanisms. Strategic relationships with other lenders need to be forged by microenterprise programs.

CONCLUSION

The microenterprise strategy works if it is well integrated into the larger economic development plan of a region. Making this happen requires expertise on the program side and an understanding of the role that the microenterprise strategy can play from those who create economic development policy at the state, local, and regional levels. According to Malcolm Bush of the Woodstock Institute, "The microenterprise strategy is creative and relatively cheap." The risk of trying it, therefore, is not especially great. Because the microenterprise strategy does not fit easily into traditional notions of what constitutes economic development, it requires some vision and imagination, as well as the willingness to experiment, in order to implement it. The microenterprise strategy can play a critical niche role in the larger economic development plan for distressed regions. There is ample room at all levels for government to do important work that would help maximize the potential effectiveness of the microenterprise strategy. These areas of involvement include funding, coordinating policy, educating key players in the economic development process, and brokering relationships. There is great opportunity for EDA to play a leadership role in these areas.

1

Structure of the Project

INTRODUCTION

The microenterprise strategy made its way to the forefront of the U.S. policy agenda in the Clinton administration's first term because of the President's and the First Lady's personal interest in the matter. The establishment of the Community Development Financial Institutions (CDFI) Fund in 1994, the President's "Excellence in Microenterprise" awards in 1996, and the Microcredit Summit in 1997 helped boost its familiarity among Washington policymakers. Policymakers and the media tout the microenterprise strategy as a way to alleviate poverty and create jobs in both the United States and developing countries. We know little, however, about the effectiveness of microenterprise development in combating economic distress. *Should EDA encourage microenterprise programs to help alleviate structural economic problems?* This research provides a more solid understanding of the value of microenterprise development programs for EDA and other agencies and examines how, specifically, the microenterprise strategy can complement EDA's existing tool kit of policies and programs.

Access to credit and training—key ingredients in the creation, stabilization, and expansion of small businesses—is lacking in economically distressed areas of the United States. Microenterprise programs, which provide these two ingredients, have quickly multiplied in response to this need. The Aspen Institute's 1996 Directory of U.S. Microenterprise Programs profiles 328 programs in 46 states that assisted in the creation and growth of more than 36,211 businesses in 1995 alone, mostly among low-income people. Many microenterprise programs also specifically target geographic areas suffering from economic distress—such as those in which EDA works. Beyond basic similarities in mission, methodology, and target population, microenterprise programs differ enormously depending on the economic context in which they operate. This study illustrates the ways in which programs are tailored to the people and places they serve.

Economic distress occurs for a variety of reasons and manifests itself differently in different places. Regions that relied on defense-related industries have had to arrive at conversion strategies—often with EDA's help—in the wake of base closings. Resource-dependent regions, such as Appalachia and the Pacific Northwest, cope with resource depletion, international competition, and/or a shift to substitute products. Older industrial regions, particularly the Northeast and Midwest, suffer from the movement of industry to the South and West. The cities of these regions have also witnessed the exodus of people and jobs from central cities to the surrounding suburbs and exurbs. EDA's economic adjustment programs are designed to facilitate adjustment to the adverse changes in regions' economic situations that are causing or threaten to cause serious structural damage to the underlying economic base.

Changes in national and global economic relations have made the traditional path of getting and keeping a job for an entire career less of a reality for most people. Economic restructuring toward flexible specialization and a small-firm economy has left many people without stable jobs that pay a living wage and provide necessary benefits. Programs and policies designed to alleviate economic distress need to take these changes into account. The old model of training programs was geared to a labor market that no longer exists for many job seekers, particularly the low-skilled urban poor.

The great surge in self-employment that is occurring in the U.S. is in some ways a reaction to these changes. Sometimes by choice, and sometimes out of necessity, people are exploring the option of self-employment in increasing numbers. Viewed from this perspective, microenterprise programs are one of the few types of programs dealing with economic distress that respond to the constraints and opportunities posed by today's economic reality. Unlike most strategies designed to help people become economically self-sufficient, microenterprise programs help many people do a better job of something they are already doing to survive—starting small businesses. These programs teach those with an interest in and inclination for self-employment how to strengthen their entrepreneurial skills and stabilize their businesses.

Unlike traditional training programs and other strategies designed to address the problem of economic distress, microenterprise programs consider both the old-order problem of how to mobilize people and the more recent problem of economic restructuring and its effect on the labor market. These programs motivate people who are interested in taking responsibility for their own lives and futures and provide them with the tools they need to make that happen. The relational skills that these programs develop, particularly during the borrowing process, enable participants to take advantage of other programs and to create critical support networks. By helping people start and stabilize businesses, microenterprise programs also help prove to individuals that, with access to the right resources, they can do something useful.

Thus far, little work has been done to study the outputs, outcomes, and impacts that these programs produce in economic development terms. Existing research on microenterprise programs tends to focus on their effectiveness as social welfare programs rather than as economic development programs. These studies (Clark and Huston 1993; Raheim and Alter 1995; Spalter-Roth et al. 1994) also tend to evaluate programs at the level of the individual rather than considering the larger view of place-based outcomes. This research helps to fill that gap. We focus on the relationship between the microenterprise strategy and the local economy in order to determine whether and how microenterprise programs can help to alleviate economic distress.

Although most media attention has cast the microenterprise strategy in a positive light, wider debates surrounding this endeavor have become polarized. For supporters of the micro-enterprise strategy, the popularity of these programs stems from their foundation of bipartisan support, the high payback rates of existing lending programs, and the appeal of a strategy that, in theory, can pay for itself. Proponents of these programs also claim that they provide disenfranchised populations with an entry point into the mainstream economy through self-employment. Creation of new businesses and the jobs that subsequently result can also help to revitalize distressed communities.

Critics, on the other hand, argue that microenterprise programs perpetuate existing power structures by keeping these entrepreneurs marginalized in an economic fringe. They also claim that the businesses started are too small and vulnerable to revitalize distressed communities and provide a source of stable jobs. In reality, both positions contain some element of truth.

CHOICE OF PROGRAMS AND AREAS

Case studies of the following six microenterprise programs constitute the core of this research: Institute for Social and Economic Development (ISED) in Iowa; Northeast Entrepreneur Fund (NEF) in northeastern Minnesota; West Company (West) in Mendocino County, California; Women Entrepreneurs of Baltimore (WEB); Women's Economic Self-Sufficiency Team (WESST corp) in New Mexico; and Working Capital's Lawrence, Massachusetts project. The areas chosen for study represent the range of types of economically distressed areas that EDA targets. Two (West Company and NEF) are based in rural areas, two (WEB and Working Capital) operate in urban areas, and two (ISED and WESST corp) serve entire states. The programs chosen are representative of mature microenterprise programs currently operating in the United States.

The microenterprise literature distinguishes between credit-led programs (those that define their principal product as credit and focus on making loans) and training-led programs (those that focus on training and tend to have intensive and frequent interactions with their clients) (Burrus and Stearns 1997). Training-led programs tend to focus on microenterprise development as a way to help individuals living below the poverty line and on public assistance to achieve economic self-reliance. Of the programs studied here, ISED, West, WEB, and WESST are training led. ISED makes no loans directly, although it does help clients who need credit to access other sources. This focus on training is linked to programs' goal of serving low-income individuals, including persons living below the poverty line, who tend to require more intensive training than do participants at the higher end of the socioeconomic scale. Working Capital is the most credit led of all the case study programs, and Mary Mathews, executive director of NEF, calls her program a training-led credit program. Credit-led organizations tend to target a broader client base. However, according to Working Capital founder Jeffrey Ashe, "62% of Working Capital's poverty participants are at 125% of the poverty level, showing that a credit-led program can serve this population." They do serve individuals living below the poverty line, but also reach out to low- and moderate-income individuals who are self-employed and do not have access to conventional credit.

We chose programs that have:

- been in existence for at least five years, giving them a long enough track record to be studied;
- had relatively stable leadership, allowing for institutional memory; and
- maintained solid records since they began operations.

All of the chosen programs are in areas that have been hard hit by economic restructuring and/or are experiencing economic distress for some other reason. WEB is located in the central part of Baltimore City, an area plagued by the exodus of people and jobs out of the city, as well as other forms of distress typical of older industrial cities. Working Capital Lawrence operates in a much smaller city, but one that has seen the departure of a large part of its manufacturing base. Lawrence is also home to a sizable immigrant population, mostly from the Dominican Republic, Puerto Rico, and Cambodia, whose job opportunities are limited. Both NEF and West Company operate in declining resource regions. The seven counties within which NEF operates have lost a large share of the mining jobs that previously provided the backbone to the regional economy. Mendocino County, where West Company operates, has not been able to sustain its timber and fishing industries. ISED and WESST, the two statewide programs, operate in a mix of rural and urban settings throughout Iowa and New Mexico, respectively. Poverty rates in New Mexico are extremely high, and the state has mostly been unsuccessful in attracting new jobs. Iowa recently suffered through the Farm Crisis and has also lost many manufacturing jobs in related sectors, such as farm machinery and meatpacking.

The profiles below provide more information on each of the programs studied.

WORKING CAPITAL

Geographic area served:	Lawrence, Massachusetts
Mission:	To revitalize poor and economically distressed communities through assistance to microbusiness owners
Target population:	Microentrepreneurs in low-income urban and rural communities
Training and lending services:	Training within peer groups; group lending
Type of economic distress:	Deindustrialization; movement of people and jobs out of central city

WESST CORP

Geographic area served:	State of New Mexico
Mission:	To assist low-income women and minorities in developing economic self-sufficiency by starting or growing their own businesses
Target population:	Low-income women and minorities
Training and lending services:	Training in classes; peer support; individual and group lending
Type of economic distress:	High poverty level and lack of economic base statewide

INSTITUTE FOR SOCIAL AND ECONOMIC DEVELOPMENT

Geographic area served:	State of Iowa
Mission:	To create new jobs by facilitating the growth and expansion of microbusinesses and to enable low-

	income Iowans to move toward economic self-sufficiency through self-employment
Target population:	Low-income individuals, welfare recipients, and economically distressed communities
Training and lending services:	Training in classes
Type of economic distress:	Declining agricultural and manufacturing industries

WOMEN ENTREPRENEURS OF BALTIMORE

Geographic area served:	Greater Baltimore metropolitan area
Mission:	To create innovative economic development strategies and provide entrepreneurial education and training services that assist in developing business and leadership skills, and result in the economic enhancement of women and communities in the region
Target population:	Women in the Baltimore area
Training and lending services:	Training in classes; peer support; individual and group lending
Type of economic distress:	Disinvested central city

WEST COMPANY

Geographic area served:	Rural Mendocino County, California
Mission:	To increase economic options for low-income people through ownership of microenterprises
Target population:	Low-income women and minorities
Training and lending services:	Training in classes; peer support; individual and group lending
Type of economic distress:	Severe decline of timber harvesting and milling industries

NORTHEAST ENTREPRENEUR FUND

Geographic area served:	Seven counties in northeastern Minnesota
Mission:	To foster an entrepreneurial spirit and encourage economic self-sufficiency through the growth of small business and self-employment opportunities in northeastern Minnesota
Target population:	Unemployed and underemployed men and women who reside in the target region

Training and lending services:	Training in classes; peer support; individual lending
Type of economic distress:	Declining resource region

RELEVANCE

The microenterprise strategy in its U.S. context has existed for about ten years, long enough to have produced a track record that allows us to assess whether and to what extent the strategy can help to accomplish the EDA mission to "generate new jobs . . . and stimulate industrial and commercial growth in economically distressed areas of the United States." Assessing six microenterprise programs operating in distressed areas will enable EDA to decide whether and how to support these programs. In addition, the Clinton administration has expressed a great deal of interest in supporting microenterprise programs.

2

Lessons from the Case Studies

INTRODUCTION

The findings presented in this chapter draw on the original research conducted for this project, including fieldwork at the six case study sites, a written survey of the entrepreneurs interviewed, and interviews with members of the advisory board and other field experts. The methodology of our study and a description of the specific research tasks performed can be found in Appendix A. In addition, we have supplemented our research with the findings of other recent investigations.

Few studies of the microenterprise strategy in its current U.S. context exist. Those that have been conducted vary greatly in their scope, emphasis, and quality; they tend to focus on either the programs, the entrepreneurs, or the businesses. These studies are useful for painting a broad picture of programs and the outcomes they produce because they pose questions and cover areas that complement the objectives of this project. The remainder of this chapter summarizes our findings from the case studies, presenting them in conjunction with findings from the most useful of the previous studies, which are: the Self-Employment Learning Project (SELP); the Self-Employment Investment Demonstration (SEID) evaluation; the Charles Stewart Mott Foundation's (Mott) Small Steps Toward Big Dreams series; and the Institute for Women's Policy Research Micro-Enterprise and Women report. A description of the scope and orientation of each of these studies appears in Appendix E.

THE FIELD

The number of programs, as well as activity within individual programs, is in a period of rapid expansion .

The field of microenterprise programs is growing dramatically in the U.S. Whereas a handful of programs was operating ten years ago, by 1996 the Aspen Institute's Directory of

Microenterprise Programs reported the existence of 328 programs, up from 195 in 1994 and 108 in 1992. This number reflects only those programs that responded to a survey sent out by Aspen; therefore, the actual number may be significantly higher. All of these programs offer technical assistance to entrepreneurs, and 67 percent do either individual or group lending. Of those that offer credit, 71 percent do individual lending only, 14.5 percent do group lending only, and another 14.5 percent do both individual and group lending.

Early programs such as Women Venture[1] and the Women's Self-Employment Project began to generate solid outcomes and then attracted national attention among policymakers, organizers, and philanthropic foundations. Growth in program activity expanded particularly rapidly between 1992 and 1994. The 31 programs surveyed by the Mott Foundation in 1994 reported a 35 percent increase in the cumulative volume of loans made and a 10 percent increase in the total capitalization of the loan funds in that two-year period. These same programs reported a 42 percent increase in the number of businesses financed since 1992 (Mott Foundation 1994, 3). Joyce Klein, who prepared the most recent Mott Foundation report, attributes the rapid expansion of the microenterprise field to both "growing need at the local and grassroots levels and increasing government interest at the state and federal levels" (Mott Foundation 1994, 16). According to Malcolm Bush of the Woodstock Institute, the "unbelievable" rate of expansion "speaks to the fact that there is a sector of economic problems we are not touching with regular economics."

The microenterprise field has begun to mature.

The programs that have existed the longest, including most of those studied for this project, have entered a mature phase. They are stable; they have begun to diversify and are much more precise about what their missions are and how they plan to fulfill them than they were even five years ago. This maturity has also created a group of people who in many cases have been working in the field for more than ten years and who have begun to recognize and fill different needs. Some microenterprise programs, such as West Company, have worked to create state-level organizations to do policy work. Others have cultivated state-level intermediaries to raise and leverage funds for microenterprise activity, removing some of the burden of fund-raising from the programs. These intermediaries also make decisions about the distribution of funding. Because the people involved in these organizations know the field, they are better equipped than most funders to determine where support should go. They also monitor programs receiving support in order to ensure that they are properly accountable. Because the intermediary originated in the field rather than with the funding agencies, the theory is that intermediaries will be more likely to employ evaluation techniques and monitoring processes that the programs can live with.

In general, microenterprise program staff know more about what sorts of outputs and outcomes they are producing, how to advocate for money from funders, and how they should be evaluated. At the same time, the field is diversifying, with different programs specializing in different activities. This diversification will be discussed at greater length below.

1. Formerly WEDCO.

PROGRAMS

Microenterprise programs respond to the economic context in which they operate.

One element of this responsiveness has to do with recognizing and working with the skill set of the target population. According to Clark and Kays, "'client-effective' programs will have strong links to communities and a close knowledge of microentrepreneurs and the economy in which they operate and will tailor particular services (various kinds of training and/or technical assistance, and different sizes of loans) to specific target groups based on their needs" (1995, 4). Programs that operate in an area with a low-skilled population are likely to spend more resources on training than programs in which the target population has greater skills. This is particularly true of inner-city programs and those serving clients who have depended on public assistance for a long time, such as WEB and ISED. In Lawrence, Working Capital must recognize and work within the context of the Dominican culture in which most of its entrepreneurs operate. This group tends to be very entrepreneurial but must learn about operating a business in the United States. Programs that operate in remote rural areas must focus on the problem of access to markets, whereas this tends not to be an issue in more urban areas. In addition, programs continue to respond to changes in the economic and political landscape. For example, many programs have created innovative responses to welfare reform. West Company runs business resource groups specifically for very low-income women, to help them use self-employment as a strategy to exit welfare. ISED is in the process of developing a program that would link potential employers with welfare recipients who have gone through the ISED program but are not ready for self-employment.

Microenterprise programs are learning organizations.

The microenterprise strategy is new in its U.S. context, and programs must negotiate a steep learning curve. In its 1993 Update, the Mott Foundation found that 61 percent of the programs surveyed had changed their lending standards since they began (1993, 5). These changes might involve implementing stricter, more "banklike" procedures, adding peer lending, requiring participants to borrow in "steps" from smaller to larger loans, or narrowing or expanding the target market. In some areas, clear trends exist. For example, all of the programs studied for this research have strengthened the training aspect of their activities. All have increased their focus on data collection and evaluation (often at the behest of funders). In other areas, there are no clear trends in terms of the actual changes programs have made. For example, West Company started out doing peer lending but has since dropped it, while WEB has added peer lending to the menu of loan products it offers.

Programs are also increasing the variety of financing tools they offer to their clients and broadening the range of noncredit services they provide in order to better serve their customers (Klein 1994, 7). West Company has added a very small loan program for clients who need to test out an idea or construct a prototype of their product. Working Capital Lawrence recently formed a partnership with a group of seven area banks in order to provide larger loans to customers who are ready to borrow greater amounts than the program currently allows. Many programs start out modeling themselves after other programs. However, each context is different, and programs are wise to tinker with existing models. The amount of change that programs are implementing implies that U.S. microenterprise programs are learning as they go, and that it may be several years before we can gauge the true potential of the strategy.

In many ways, studying microenterprise programs is like trying to shoot at a moving target. Even the most mature programs continue to grow, experiment, and change. Sometimes we would contact programs several months after our fieldwork was completed in order to get clarification on some point, only to learn from staffers that they were making changes—sometimes in part because of conversations that had taken place during our time there. For example, we remarked during our fieldwork at the West Company in March 1998 that this program seemed to do a significantly greater amount of individual consulting than many other programs. West Company has since decided to provide some of its basic training to groups rather than individuals.

TABLE 2.1
Characteristics of Case Study Programs

	ISED	*NEF*	*WEB*	*West*	*WESST corp*	*Working Capital**
1995 operating budget	$1,200,000	$550,000	$358,000	$173,000	$505,000	$1,367,129
Program start date	1988	1989	1989	1989	1988	1990
Target population	Low-income, welfare recipients, & distressed communities	Unemployed, underemployed men and women in region	Low-income Women	Low-income women and minorities	Low-income women and minorities	Micro-entrepreneurs in low-income urban and rural communities
Geographic area served	State of Iowa	Northeast Minnesota	Baltimore area	Mendocino County, CA	State of New Mexico	MA, ME, NH, VT, DE, GA, RI, Russia
Lending offered	None	Individual lending to $25,000	Individual and peer lending	Individual lending	Individual lending to $5,000	Peer lending
Percent women/men	63/37	46/54	100/0	94/6	70/30	66/34

* The statistics in this column refer to the entire Working Capital program, not just Lawrence.

Source: 1996 Directory of U.S. Microenterprise Programs

Programs are extremely diverse.

This diversity, due in part to the economic, social, and political context within which programs work, is expressed through the size of the program, program mission, type of lending, and target population. In order to illustrate this diversity, the most recent Mott Foundation Update contrasts one program established in 1987 that has made more than 800 loans totaling $1.39 million with another established in 1986 that has made 241 loans totaling $345,000.

The diversity that exists both within and among programs reflects the diversity of goals that programs pursue. Even though the basic goal of providing credit and training to entrepreneurs characterizes all programs, the emphases range from working mostly on self-esteem to poverty alleviation to more traditional economic development goals of job creation and business expansion. In a recent study based on current SELP findings, Joyce Klein claims that “there are three dimensions which, taken together, explain the range of diversity among American programs. These are mission and anticipated outcomes, target population, and methodology” (1994, 3). The first dimension, mission and anticipated outcomes, differentiates between two types of programs—one that uses microenterprise as a development strategy, and another that uses microenterprise as a method of providing business development services. The second dimension, target population, will be discussed below. The third dimension, methodology, consists of three main categories: 1) credit-led individual loan programs; 2) training-led programs; and 3) group lending programs (Klein 1994, 4). While these dimensions provide a useful framework, the categories within each are not mutually exclusive. For example, Working Capital is a credit-led group lending program, blurring the categories established within the methodology dimension.

Table 2.1 illustrates some of the important characteristics of our case study programs. All of the programs we studied claim to be targeting a disadvantaged population or populations, yet each program defines this somewhat differently. Three of our six case study programs specifically target women. Three target low-income individuals, and one targets low-income communities. NEF has never specifically targeted low-income individuals, yet a fair number of their customers meet such criteria. Geographically, each program serves a different scale. Both ISED and WESST corp are statewide programs; NEF and WEB could be considered regional in their scope; and West Company serves a single county. As a result, we see a wide range of budgets across our case study programs. However, even those with similar geographic scope often have very different budgets. This is largely due to the different training and lending services each program offers, which are fully discussed in each case study chapter.

Most programs do some form of targeting and/or directed outreach. While nearly all microenterprise programs gear their services to low-income entrepreneurs, the vast majority also target or emphasize serving specific populations ranging from women (the most common) to displaced workers to migrant farm workers.[2] Programs that target do so in recognition of structural problems that make it difficult for certain groups to gain access both to employment in the formal economy and to resources such as credit and training. They also seek to counteract regional employment problems. For example, West Company targets unemployed timber and fishery workers, Working Capital targets Latinos, and ISED targets welfare recipients. Many of these programs incorporate other kinds of assistance relevant to their target population into the basic business training. The Lakota Fund, for example, helps Native American participants cope with the problem of alcoholism on their reservation. Accion New York assists borrowers with immigration and legalization problems.

Clark and Kays (1995) maintain that effective targeting makes for more client-effective programs. Arguing that U.S. programs require measures of success that go beyond the size and scale indicators often applied to similar programs in less-developed countries, these authors assert that the success of U.S. programs will depend partly on their ability to create and implement "client-effective" service delivery mechanisms (1995, 3-4).

All of the programs studied for this research target disadvantaged people in the sense that they all target individuals who cannot obtain credit through other channels. Within this broad category of "disadvantaged," targeting differs markedly from program to program.

The transaction cost of loans made by microenterprise programs is high.

The high cost of making these loans arises because virtually all programs provide training as well as lending, recognizing the fact that many poor entrepreneurs are not immediately ready to borrow. A recent study by Mt. Auburn Associates found that "successful group lending models tend to have lower costs than the individual models due to both higher repayment rates and less

2 . The Aspen Institute's ongoing Self-Employment Learning Project (SELP) is tracking 405 entrepreneurs from seven programs over five years. While seven is a small and not completely representative sample, 79 percent of the 405 entrepreneurs followed are women.

staff time required per borrower, but the costs remain high and even those programs that charge market interest rates and boast enviable repayment records require subsidies" (1994, 2-12). Mary Mathews of NEF notes, "There are very few people who walk through the door and are ready for a loan."

The most recent SELP report (1996) shows that the average cost per client served was $1,707 in 1994, with a range between $841 and $2,691.[3] On the low end, Working Capital estimates that it costs less than $800 per year to assist a single business in Lawrence. The cost per welfare client was $2,535 for ISED and $6,487 for Women Venture's SETO Program. The cost per assisted business—that is, the total program costs divided by the number of businesses in which clients are engaged—ranged from $1,437 to $4,698 in 1994, with an average of $3,018.

NEF was able to provide us with similar data for its program, citing an average cost per business[4] of approximately $8,800. On average, its customers' businesses create or retain 1.8 actual jobs, so the program estimates a cost per job of $4,900. NEF's average financing per business is $9,000, which yields a cost per job for financing of $5,000.

Two of the seven SELP programs collected data sufficient to compute the average cost per job. For ISED that figure was $4,114, and for Women Venture it was $6,155. As shown in Table 2.2, these results compare well with other publicly funded job creation strategies. EDA's Revolving Loan Fund has a cost of $4,411 per job created or retained—roughly equivalent to both the ISED cost in the SELP study and the data reported by NEF for this project. Due to data constraints, none of our other case study programs have computed costs.

TABLE 2.2
Cost per Job for Microenterprise and Other Business Lending Programs

Organization	*Client type*	*Cost per job*
Women Ventures Business Development Services	Low/moderate income	$6,155 per new, full-time job
ISED	AFDC and low income	$4,114 per new job, full- and part-time
NEF	Under/Unemployed people in region	$4,900 per actual job created or retained
Community Development Block Grant	Varies	$2,718 average per job created or retained
Business Loans Entitlement Program	Varies	$3,556 for minority-owned firms
Small Cities Program	Varies	$3,469 per job created or retained
Economic Development Administration Revolving Loan Funds	Varies	$4,411 per job created or retained

Source: 1996 SELP Report and data provided by programs

3. These costs are the ratio of total self-employment program costs to the total number of clients served.

The cost per loan in the latest SELP study averaged $1.47 per dollar loaned in 1994. In other terms, it cost the SELP programs between $1,688 and $15,329 for each loan made. On the surface, this lending activity appears to be very expensive. The programs studied for the Mott Foundation evaluation claim an average cost per loan of $10,521 (1994 Update, 8). These high costs occur for several reasons. First, the average loan size of most programs is extremely small—$3,034 for Mott-funded programs (1994 Update, 5).[5] Therefore, even though most microenterprise programs use market interest rates,[6] the return is very low. At the same time, the amount of paperwork is at least as great. And where many commercial banks have begun to automate their services, approving loans over the telephone, for example, microenterprise programs' low default rates depend on forming strong relationships between lenders and borrowers. The creation and maintenance of these relationships takes time, which in turn costs money. See each case study for a description of the particularities of the relationships formed between client and program.

Delinquency and default rates are higher than originally anticipated in the field.

According to Klein (1994, 6), faulty early evaluation efforts coupled with high expectations due to the precedents set by programs in developing countries erroneously suggested that delinquency and default rates would be relatively low. However, 1993 data from the Mott Seed Capital Assessment showed an overall delinquency rate of 19.2 percent (using a portfolio risk measure) and an annual default rate of 9.5 percent (Update 1994, 6). The range of program results is quite broad, though, and depends on such factors as type of businesses served (i.e., start-up vs. existing) and type of lending model employed. The research conducted by the Mott Foundation has also shown that default rates have risen slowly over time and that older programs tend to have higher default rates. Joyce Klein, author of the most recent Update, explains these trends as follows: "First, as programs mature and adopt stricter portfolio management practices, they typically become more aggressive about writing off bad loans. Second, programs that are more established tend to have a higher percentage of older loans…; these programs will have higher default rates simply because it takes time for a loan to go into default" (1994, 6). Many programs have toughened standards as they have evolved.

Microenterprise programs have little trouble raising capital for their loan funds, but covering operating costs (including training) continues to be a struggle.

Funders, particularly public funders, like to think of microenterprise programs as low-cost ways of helping the poor. Because they provide loans, the implication is that the funds can be repaid. The connection between credit and opening a business is stronger in people's minds than is the connection between training and entrepreneurship. According to a board member at WEB:

4. Computed as the program's total budget divided by the number of businesses. This includes the operating budget (training, technical assistance, loan fund administration, and other overhead), but no loan capital.
5. Average loan sizes range from $300 to almost $12,000 (Mott Update 1994, 5).
6. The range of interest rates charged is quite broad, however. Interest rates of the seven programs included in the SELP study range from 6.25 percent to 14 percent (Clark and Kays 1995, 5).

> Policymakers and funders need to recognize that a training program is slower at producing outcomes than a credit program. We believe that providing training produces more durable and longer lasting results.

Barbara Johnson, executive director of San Francisco-based Women's Initiative for Self Employment, claims that, "No one is willing to invest in the hard stuff. Credit is easy."

A Mott Update found that, on average, microenterprise programs cover only 5.9 percent of their operating budgets through revenues from internally generated sources, including program revenue and investment income (1994 Update, 6). The remainder must be raised from public and private sources. This is partly because the cost per loan in microenterprise programs is quite high and the average loan size is small. Programs expend a great deal of resources getting clients ready to borrow and holding their hands throughout the process. Programs also expend resources taking clients through a process that might lead to not borrowing and perhaps not even starting a business. Most programs consider these alternative outcomes successes. No program anticipates being able to continue to pursue its mission and cover these costs. The need for greater operating support is a topic all of our case study programs, and many of our advisory board members, felt strongly about.

Mary Mathews, president of NEF, notes that her program has increasingly moved toward public funding sources, with contracts with the City of Duluth and St. Louis County to provide entrepreneurial training. Additionally, NEF is expanding its lending activities in an attempt to raise more revenues with larger loans.

WESST corp hosts the New Mexico Women's Business Conference, an event targeted to businesswomen throughout the state. The event also serves as a fund-raising opportunity for WESST corp, with anticipated proceeds of $75,000 to $100,000 in 1998.

Virtually all programs provide training as well as lending.

Some programs, such as ISED, do no lending. Nearly all programs require borrowers to undergo some basic business training in sales, marketing, and finance, and many require would-be entrepreneurs to write a business plan. A 1991 report generated by the Mott Foundation found that programs spent between $110 and $2,000 per client on technical assistance (1994 Update, 4). This wide variation in costs reflects differences in quantity and quality of training. At the high end, WEB borrowers must complete 108 hours of classroom training in order to graduate. At Working Capital, which is at the low end of the training spectrum, most of the training occurs informally in groups. Variations in the amount and kind of training programs require also reflect differences in target population, as well as differences in emphasis. WEB, which targets very low-income women, has found that this population requires more intensive training in order to become ready to pursue self-employment. Working Capital emphasizes efficiency and cost, and therefore screens out the neediest clients. According to SELP data, programs allocate between 21 and 88 percent of their total budgets to training activities. Overall, 75 percent provide workshops, 33 percent provide mentors, and 66 percent do classroom training (1994 Update, 5).

As programs have begun to mature, field experts have started emphasizing training at least as much as lending. Jack Litzenberg, a funder with the Charles Stewart Mott Foundation, claims that:

> As we learn things, microenterprise has not become a capital access strategy, it has become a community education program. They provide an entry point

into understanding how the economy works. They learn by doing, they experiment with money, with buying and selling.

Microenterprise programs often catalyze networks of social service providers and community groups.

In addition to business training and credit, low-income entrepreneurs often need social and professional services such as legal advice and child care. This constellation of needs that tie into business ownership has generated cooperation and collaboration within communities. More and more, programs are formalizing this kind of cooperation by creating partnerships, affiliates, and consortia as a means of reaching scale and reducing their direct costs (Klein 1994, 8). Most U.S. programs were initiated at the local level, and the microenterprise strategy recognizes and builds upon local institutions. Working Capital, for example, works with existing community development organizations to deliver its services, and obtains most of its loan fund capital from area banks. Programs administered through existing community organizations have the added advantage of targeted access to a constituency of potential borrowers (Mt. Auburn Associates 1994, 2-13).

All of the six programs studied for this research have forged important relationships with other organizations and institutions. The kinds of organizations and institutions vary; typical ones are local banks, local government agencies, and other community-based organizations. In all cases, the inception and maintenance of critical relationships is dependent upon the presence and investment of a key individual. For example, both ISED and West Company have formed relationships with their local SBDCs. In the case of ISED, the SBDC initially felt threatened by ISED and became protective of what it perceived to be its turf. Only after a great deal of negotiation have the two agencies managed to craft a working relationship. West Company and its local SBDC crafted a complementary relationship quite easily. There is one office for both programs, and West staff determine whether individual clients should be assigned to a West business consultant or someone from the SBDC. The two agencies have segmented the market, with the SBDC focusing on larger and more advanced businesses. For the most part, clients do not recognize that there are two different programs.

Some of the programs studied belong to critical regional associations designed specifically to work on economic development problems. In Minnesota, NEF belongs to the Arrowhead Growth Alliance, an informal group of all agencies in the region engaged in economic development. In California, West Company belongs to a group called Mendocino Works, which is a consortium of 86 organizations ranging from the local community college to the California Conservation Corps to the Private Industry Council. Together these organizations work on issues related to economic development and employment in Mendocino County.

Banks are among the most important of the organizations with which microenterprise programs form relations. Banks typically receive Community Reinvestment Act (CRA) credit for the work that they do with microenterprise programs. Programs get access to greater funding for their loan funds. These relationships differ from place to place. The model of the approachable, small-town banker is rapidly disappearing in much of this country, making it even harder for high-risk entrepreneurs to obtain access to business credit. In some of the rural areas studied, it is still possible (although exceptional) for someone with an idea and no money to get capital from a bank. One West Company client, who needed a very small loan to buy supplies in order to produce a large order of her greeting cards, approached her banker and met with success:

> I live in a small town, and my banker knows I have had an account at the bank for all these years….I didn't have a business plan, but I showed him my orders, and I showed him what I had sold so far driving around in my car, and here's my orders, and what they owe me once I fill them, but I need the money for the paper….On paper it wouldn't have looked good at any other bank. But he knew me as a person, and I had credibility.

In some ways, microenterprise programs have taken over doing this kind of character lending, both by making loans directly to entrepreneurs who "do not look good on paper" and by vouching for them with banks that respect and trust the work they do.

Microenterprise programs often provide entrepreneurs with access to credit they cannot obtain elsewhere. In some cases, even after having borrowed and repaid a loan, these entrepreneurs face difficulty in the mainstream credit market. A West Company client used her initial West loan of $2,500 to buy supplies and equipment for her pottery studio. West then helped her to obtain a bank loan of $5,000. Even with letters from the West loan fund manager and the bank manager, she could not obtain a line of credit, because she had too little in the way of collateral. Similarly, WESST corp collaborates with the New Mexico Community Development Loan Fund (NMCDLF) to help clients who have larger capital needs than the $5,000 maximum available from WESST. This successful partnership between WESST and NMCDLF has led to the creation of a joint field office in Roswell, New Mexico, where the two organizations do joint training.

The community development element of what microenterprise programs do—which involves connecting people to each other and to critical organizations, training residents, and helping them to access resources—is often overlooked, perhaps because this aspect is more difficult to see and evaluate. Our case studies illustrate the collaborative nature of microenterprise programs as well as programs' emphasis on relationship-building. This work functions to build social capital, making microenterprise programs important facets in community development (Servon 1998).

Scale and sustainability are two of the biggest problems facing microenterprise programs.

Given their small loan sizes and high operating costs, it will be difficult, if not impossible, for many programs to make enough loans to achieve sustainability. Respondents to the Mott survey estimate that nearly 88 percent of their operating budgets will need to be generated from external sources in the future; programs currently obtain 94 percent of their operating expenses from the outside. Credit-intensive programs are more likely to approach self-sufficiency than training-intensive programs because of the former type's overall lower operating costs and higher levels of revenue. Nearly all programs will continue to depend on external funding and will therefore need to work on forging long-term commitments from funders, both public and private. The growing demand for the services provided by microenterprise programs will require a commensurate investment in the field by the institutions that currently use and support them. At the same time, it is important to recognize that programs vary in their pursuit of scale.

TABLE 2.3
Loans Made by Case Study Programs

	*ISED**	*NEF*	*WEB*	*West*	*WESST*	*Working Capital*
Number of loans made (year)	30 (1997)	20 (1997)	62** (1993 to 98)	17 (1997)	28 (1997)	793 (cumulative)
Average loan size	$27,350	$9,885	$1,182	$2,650	$2,502	$1,215

* ISED does not make direct loans. Reported are loans obtained by ISED clients from other sources.

** Two significantly larger SBA loans are not included, as they skew the average loan size.

Source: Individual programs

Table 2.3 illustrates the various lending activities of our case study programs. The number and average size of loans vary greatly. Recall that ISED makes no direct loans, but through its relationships with local banks and the Iowa Self-Employment Loan Program, it can provide its clients with an avenue to credit. WESST corp makes loans only up to $5,000, but its connection to the New Mexico Community Development Loan Fund allows its clients to access larger loans. Some, such as WEB, are more interested in empowering women to make sound economic choices than in making a high volume of loans, whereas others, such as Working Capital, are in the midst of an aggressive expansion that will lead to greater program self-sufficiency. Clark and Kays (1995) make the case that scale and sustainability are appropriate success paradigms in the less-developed-country context, but that U.S. programs require a different paradigm. The U.S. paradigm may include indicators such as the ability to graduate clients to the formal banking sector, the ability to deliver cost-effective technical assistance and training, and the ability of programs to find cost-effective and client-effective service delivery mechanisms (1995, 3-4).

Program directors and advisory board members told us that programs vary in their pursuit of scale. Some focus on efficiency and sustainable funding rather than self-sufficiency. According to Christopher Sikes, an advisory board member:

> Sustainability is bogus. It will never be that way. Even if you look at microenterprise development as a contained program, it will never be self-sustaining. Especially if it's a poverty program. It's more important to focus on efficiency and impact than on sustainability.

Welthy Soni, who runs Business Start, asserts the following:

> [Many funders] expected these programs to be sustainable after a few years. Banks don't get to be sustainable until they have a lot of assets. To be sustainable with such a small portfolio is almost impossible. You can decide not to serve the hard-to-serve clients. You can work higher up the socioeconomic scale and serve less-expensive clients, but many programs do not want to do that.

Other programs have begun to pursue related activities to generate income that will support the microenterprise activity. Soni's program has diversified its loan portfolio. Although the primary focus is the microenterprise fund (which has $1 million lent out and another $1 million available to lend), the program has created another larger fund in order to make money. Funded with state monies, this larger fund targets tourist activities and therefore complements Business Start's mission of promoting economic development in the region. Other programs, such as WESST corp, have pursued more modest ways of generating capital, such as hosting the aforementioned New Mexico Women's Business Conference. According to executive director Agnes Noonan, "Corporations are comfortable supporting conferences—they seem to be more willing to buy into it." In addition to raising money, the conference also benefits WESST's clientele. The above examples illustrate that, when microenterprise programs do engage in additional revenue-generating activities, they tend to pursue those that help to forward the program's mission.

Programs obtain funding from a mix of sources.

Many funders specify whether monies are to be used for operating activities or lending activities. Data compiled by the Mott Foundation shows that foundations contribute the largest amount to program loan funds, at 42 percent. Other contributors are the federal government, at 24 percent; state governments, at 19 percent; and other local and intermediary sources. Foundations also make the largest contributions to operating activities, giving 42.7 percent of the total. The federal government contributes 29.5 percent, state government contributes 11.4 percent, and local government gives 2 percent (1994 Update, 6). The mix of funding has changed as policy has changed and as the microenterprise strategy has grown in popularity. Some programs have shifted to public funding as it has become more available. Others, such as West Company, have chosen to pursue private sources because the paperwork required for public funding is overwhelming.

TABLE 2.4
Public and Private Sources of Funding in Case Study Programs

	ISED	*NEF*	*WEB*	*West*	*WESST*	*Working Capital*
Private sources	95%	40%	41%	46%	34%	NA
Public sources	5%	45%	52%	52%	54%	NA
Interest, fees, and other revenue activities		15%	7%	2%	12%	NA

Source: Individual programs

Mary Mathews of NEF reflects on the funding shifts in her own organization:

> It used to be totally private foundations: the NW Area Foundation, Mott, and Ford. The government sources have grown over time—like the contract with the City of Duluth. We're diversifying our income base.

The contract mentioned with the City of Duluth utilizes Community Development Block Grant (CDBG) money for entrepreneurial training. In Albuquerque, WESST corp has a similar contract to provide Spanish-language entrepreneurial training in targeted neighborhoods, again utilizing CDBG repayment proceeds. ISED, while remaining strongly tied to public funding sources, has expanded the number and size of these contracts in recent years.

The 1996 SELP Update also reflects this shift toward greater public-sector funding sources by microenterprise programs. Public funding for the microenterprise strategy has increased as local programs and state-wide coalitions of programs have successfully advocated for support for the strategy and have been able to exhibit positive results in order to further that process. The support from President Clinton and Hillary Rodham Clinton has also operated to give the strategy visibility and legitimacy. Many of the SELP agencies initially operated largely—or in some cases exclusively—with private-sector support, primarily from foundations. In 1991, more than half of the SELP agencies derived one-quarter or less of their operating funds from the public sector. Just three years later, in 1994, all of the agencies received at least half of their funding from public-sector sources (1994 Update, 72).

BUSINESSES

Most microbusinesses are home-based sole proprietorships operating in the service sector, and most are less than five years old.

A home-based business allows the entrepreneur to combine managing the business with other responsibilities such as formal wage labor or child care. As illustrated in Figure 2.1, nearly half (48 percent) of the businesses surveyed for this project were in the service sector. It should be noted that we have made Art/Crafts a distinct category, since there are manufacturing, retail, and service components to the business activities that artists engage in. We also observed a large number of self-employed artists in two of our case study programs—West and WESST corp.

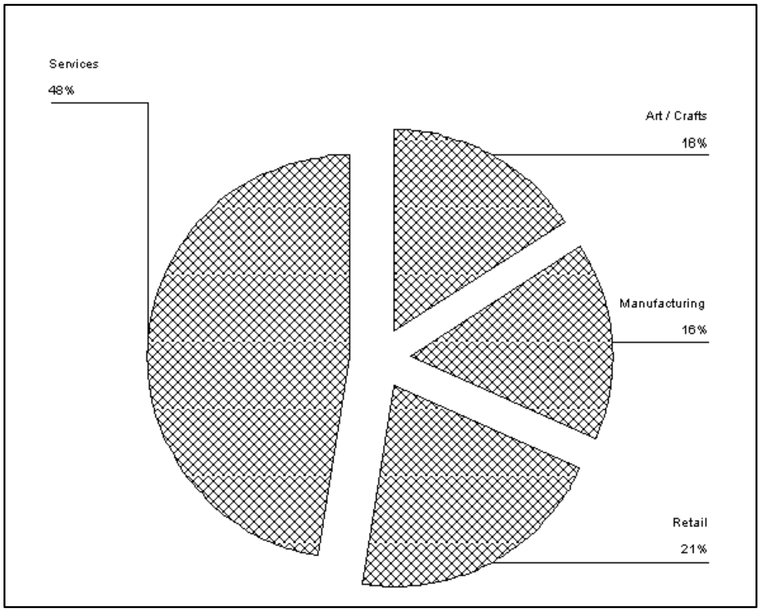

Figure 2.1 Sectoral breakdown of businesses of microentrepreneurs interviewed

Source: Client survey

Fifty-three percent of the businesses of self-employed former welfare recipients and an even higher percentage of the businesses of self-employed current welfare recipients operate in the service sector. Service businesses require little start-up capital, gain easy entry into the market, and often require little in the way of overhead, equipment, and space. Self-employment is very labor intensive. Twenty-nine percent of the microentrepreneurs surveyed for the SELP study report working more than 60 hours per week, and the majority of these (58 percent) devote between 76 and 100 percent of their time to their business (Clark and Kays 1995, 20).

Self-employment by itself does not sustain the majority of microentrepreneurs' households.

Slightly less than half of the entrepreneurs SELP interviewed reported making a profit on a monthly basis (Clark and Kays 1995, 28). Slightly more than half (56 percent) reported relying on their businesses as their primary source of income. Forty-nine percent reported depending on at least two other sources of income. Of the 96 SEID participants with businesses that were still operating when the survey was conducted in 1993, the median gross income per business was $8,000; the mean net income was $4,446. Twenty-six business owners reported taking an owner's draw with a mean value of $574 per month, and eight reported paying themselves a regular wage with a mean value of $798. The IWPR study found that the businesses of self-employed former welfare recipients paid an average hourly wage of $4.38, while self-employed current welfare recipients made only $2.63 on average. These same populations earned average hourly wages of $6.98 (former recipients) and $4.00 (current recipients) for wage or salary employment.

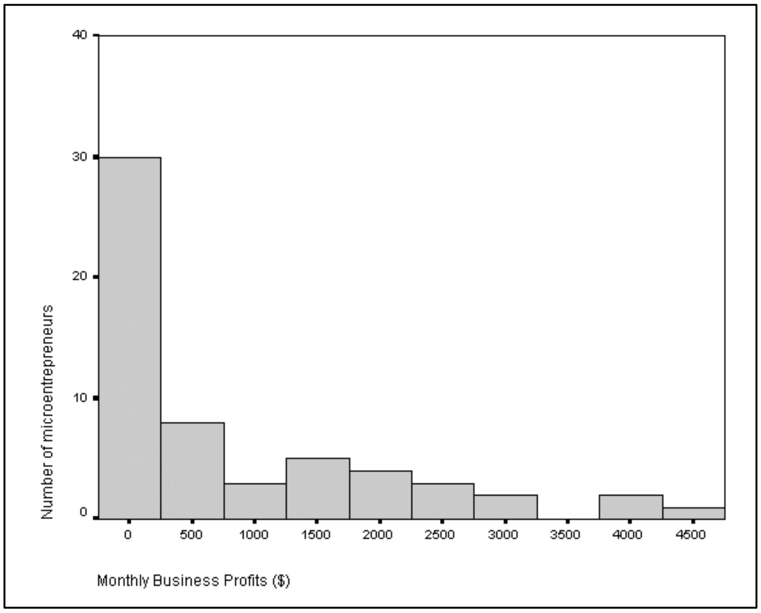

Figure 2.2 Monthly business profits for microentrepreneurs interviewed
Source: Client survey

Monthly business profits of the firms interviewed for this project range from zero to $4,600, with a median value of $200. Figure 2.2 illustrates the distribution. Thirty-eight percent reported no business profits for their businesses.

Although the majority of microentrepreneurs have not become self-sufficient through their businesses, the business income that they contribute in many cases raises the household over the poverty line. In addition, the second- and third-order outcomes that programs produce, which include increased self-esteem and increased potential for earnings in the mainstream labor market, seem to indicate the value of these programs.

The majority of these businesses fail to provide benefits, such as health care and child care.

Of the entrepreneurs interviewed, only three of the 17 businesses with employees said they provided benefits for those employees. Only 6 percent of microbusinesses surveyed for SELP provide health insurance. The IWPR study found that self-employed former welfare recipients were covered by health insurance an average of only 2.5 out of 12 months, drastically less than for the other groups studied for that research. Given the lack of health insurance among these "successes," the authors conclude that "without universal health care benefits, self-employment is risky for women and their families" (Spalter-Roth et al. 1994, 35).

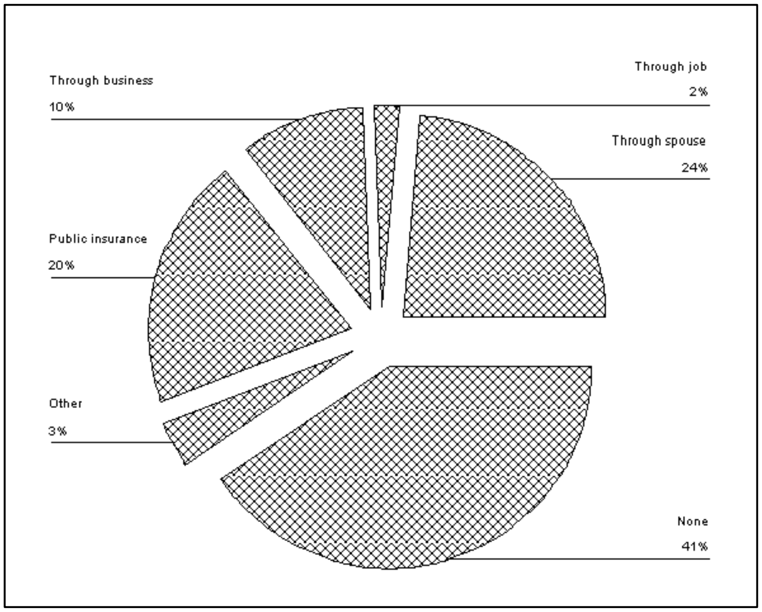

Figure 2.3 Sources of health insurance for microentrepreneurs interviewed

Source: Client survey

Figure 2.3 illustrates evidence from our survey that supports this other research. Of all microentrepreneurs interviewed for this project, more than 40 percent have no health insurance. Of those that do have insurance, the majority obtain that insurance from a spouse's job or through public insurance. Just 10 percent of those interviewed reported having health insurance through their business.

Our survey also revealed that the majority of microentrepreneurs do not have any retirement savings provisions—a common benefit offered in full-time waged employment. Sixty-six percent of respondents do not have *any* retirement savings plan. Only 8 percent offer such a plan through their business, yet an equal number have established independent savings plans, like an IRA, outside of their business. Twelve percent have such savings through a spouse, again an important means of access to income and benefits within a household (Figure 2.4).

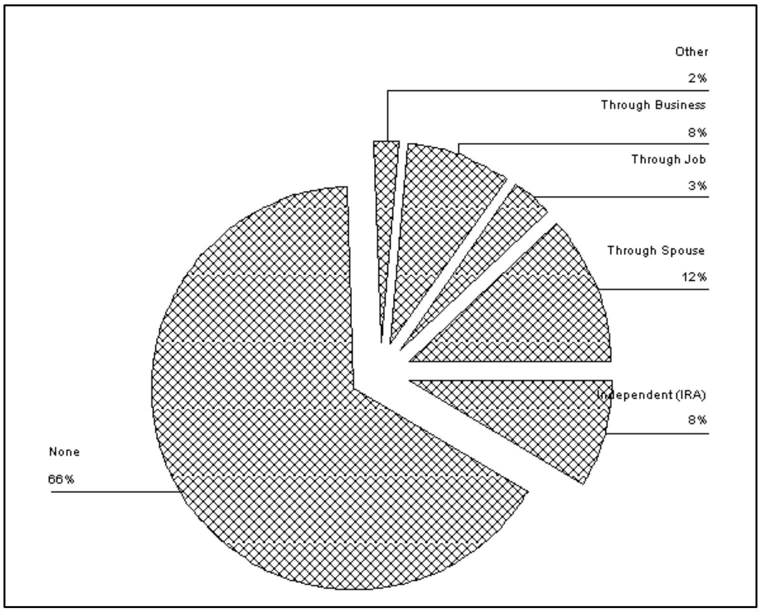

Figure 2.4 Retirement savings plans for microentrepreneurs interviewed
Source: Client survey

More than half (56 percent) of those surveyed by SELP claim that their business provides them with their primary source of income (Clark and Kays 1995, 20). Many microentrepreneurs do some form of income packaging, which involves piecing together income from a business with income from other sources such as wage labor or welfare. We found that the microentrepreneurs we interviewed tended to package within households. Although 81 percent of all respondents said that their businesses contributed to the monthly expenses of the household, 77 percent of those individuals have at least one additional source of income (a waged job, another household member, public assistance). Table 2.5 shows the responses by category.

TABLE 2.5
Sources of Income for Monthly Household Expenses

Source	*Citing Source*
Income from your business	76%
Income from your job	21%
Income from others in your household	48%
Income from child support	9%
Income from AFDC / TANF	9%
Income from Food Stamps	14%
Income from Medicaid	3%
Income from SSI	10%

Source: Client survey
Note: Total is more than 100% due to multiple responses

Sixteen percent of SELP participants receive public assistance as a primary or secondary income source (Clark and Kays 1995, 5). In addition, 37 percent of the sample reported that they hold down at least one outside job while running their businesses. These findings are complemented by results of the IWPR study:

> Welfare recipients who reported self-employment hours include this income source as part of a more diverse income package that includes wage or salary employment as well as other sources of income. These recipients had at least one business plus 1.4 wage or salary jobs for a total of 2.4 "jobs," on average, during a 24-month period. . . . Even "successful" former welfare recipients continue to be packagers of self-employment with wage or salary work. This is due to the fact that neither their businesses nor their jobs provide ample income to support families (Spalter-Roth et al. 1994, 24).

The fact that wage labor does not adequately provide for many families' needs reflects the growing phenomenon of working poverty. Given that many current jobs offer only temporary or part-time employment, some entrepreneurs may vary the energy they put into their business depending on the other opportunities available to them at a particular time. Conversely, microentrepreneurs may retain formal wage labor in order to ensure adequate income while their business is stabilizing. However, the IWPR study found that "hourly earnings from self-employment are substantially lower than hourly earnings from wage or salary work…[suggesting] that wage or salary work is a better financial option, if such work can be obtained steadily" (Spalter-Roth et al. 1994, 23-24).

The IWPR study portrays businesses that are barely able to sustain households. As a result, nearly all microentrepreneurs are "income packagers." Spalter-Roth et al. define income packaging as combining paid employment, receipt of means-tested welfare benefits, and income from additional sources.[7] According to IWPR research on this subject, "those women who combined work and welfare were more likely to bring their families out of poverty than those who did not, and they were also more likely to have health care for their families than those who cycled off welfare to low-wage jobs" (Spalter-Roth et al. 1994: 4).

IWPR found that "self-employment provided smaller annual earnings than did wage or salary work, and that of the 10 percent of women who were self-employed, half engage in self-employment in combination with other wage and salary jobs or a second self-employment job" (Spalter-Roth et al. 1994, 4). This same study found that, among employed women, self-employed women were the most likely group to be married to a full-time, full-year working spouse (Spalter-Roth et al. 1994, 4). This finding suggests that self-employment may not provide the most reliable, stable source of income. The researchers conclude that self-employment is probably "not, by itself, a likely means for bringing about the self-sufficiency of poor women, but it could be a part of an income package for a motivated group of AFDC recipients if certain public policies are changed" (Spalter-Roth et al. 1994, 5).

Critics of the microenterprise strategy often claim that self-employment provides the opportunity for a lateral move but fails to help people gain access to the mainstream economy. However, it may take several years for a business to become stabilized and provide its owner with a living wage. This stabilization process is a fact of life for all small business owners and should not be used to argue against the usefulness of the microenterprise strategy. At the same time, this

7. Spalter-Roth, Hartmann, and Burr cited in Spalter-Roth, Soto, and Zandniapour 1994, 3.

strategy may not be suitable for everyone, particularly the most vulnerable populations who could lose their safety net if they pursue self-employment. It is important to recognize, though, that jobs in the mainstream economy are now less likely to come with benefits than they were previously.

Microenterprises create few jobs.

Aside from the owner/operator, the 386 SELP businesses created a total of 332 jobs for an average of 1.2 jobs per business. Sixty-six percent of SELP businesses employ only the owner; therefore, the remaining 34 percent are responsible for all of the job creation. Businesses involved in SEID created an average of .53 jobs per business. Neither of these studies differentiates between full-time, part-time, and seasonal jobs. The industrial sectors that are responsible for the most job creation are: restaurants; custodial firms; retail sales; and manufacturing (Clark and Kays 1995, 31).

Our results are similar. In our study group, only 29 percent of the businesses interviewed reported having any employees. Those 17 businesses reported a total of 41 part-time and 28 full-time employees. While a number of full-time jobs were reported, as shown in Figure 2.5, the benefits provided to those employees are not as one would hope, as is discussed above. Firms in the retail sector tended to employ part-time help almost exclusively, given that the micro-entrepreneur is generally the only full-time employee. One woman who owns a restaurant with her sister employs four part-time high-school-aged employees; this example typifies our findings. In the manufacturing and service sectors, there is a greater potential for full-time employees.

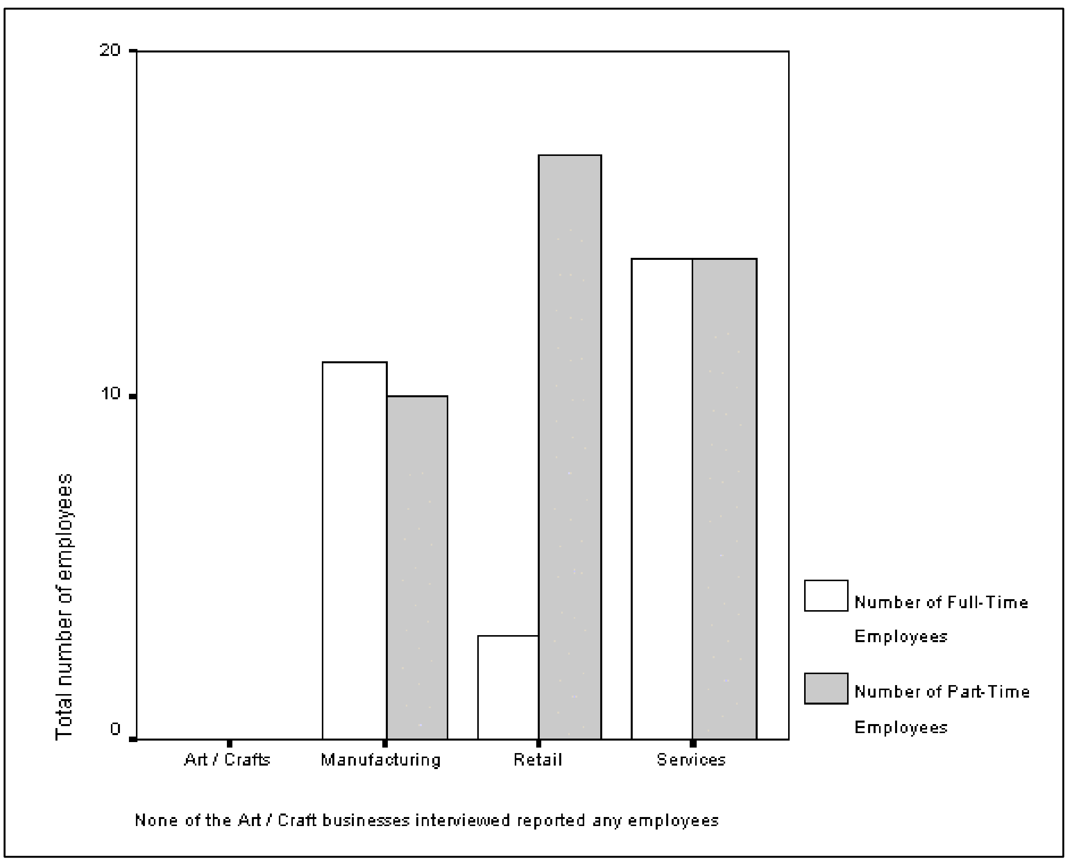

Figure 2.5 Total number of employees in microbusinesess interviewed, by sector

Source: Client survey

None of the studies examines possible causes for the small size of businesses, but the potential reasons are multiple. Most microenterprises are less than five years old and are therefore in the start-up or stabilization phases rather than the expansion phase. Some microentrepreneurs are not interested in growing their businesses but would rather maintain them at a manageable level. Indeed, many of the entrepreneurs we interviewed had made conscious decisions not to grow their businesses beyond a certain point. Some value their time to pursue other interests or spend with their families. Others wanted to focus on the activity that led to their self-employment in the first place; they did not want to become managers.

Another explanation is that these businesses are undercapitalized. In a critique of the SEID evaluation, Timothy Bates (1996) contends:

> Microenterprise programs frequently provide loans of only a few thousand dollars, and these loan amounts are woefully inadequate to finance most types of business start-ups. Underfinancing of borrowers, I believe, is the main cause of the poor outcomes of the firms started by SEID loan recipients.

Several of the entrepreneurs interviewed for this study believed that they had been undercapitalized from the start-up phase and had therefore never been able to grow to a larger scale. Others said that they had sufficient access to capital for their business. These differing results seem to correlate with the different programs. Those programs that either make or have access to larger loans have clients with greater business debt, but also less of an expressed need.

We also found that the overwhelming majority of these microenterprises have very few assets. Three-quarters (74 percent) of our survey respondents valued their business assets at under $25,000; half were under $10,000, and one-quarter were under $4,000. While a number of our microentrepreneurs have business-related debts (as discussed in the next section), those debts do not necessarily relate to business assets.

Most microentrepreneurs have some business-related debt. Of all the microentrepreneurs interviewed for this project, 76 percent had some business debt. These ranged from loans from family members for a few hundred dollars to tens of thousands of dollars in home equity or commercial loans. Loans were used for all purposes, from operating capital to purchases of specialized equipment to obtaining inventory and supplies. And while some microentrepreneurs obtained financing only from a microenterprise program, most list multiple sources of financing, including "traditional" credit sources such as commercial bank loans, credit unions, and vehicle-financing agencies.

Across all programs, certain kinds of business debts were common. One was financing costs for a vehicle—be it a van used for deliveries or a personal automobile used to visit customers. Many microentrepreneurs listed a car/truck loan as a primary business debt. Another common loan was for a computer for the business—usually from the electronics store where the computer was purchased. Both of these sources tend to have lower lending standards than commercial banks.

We also observed a large number of microentrepreneurs who used personal credit cards to finance their businesses. The amount of debt varied from a few hundred dollars to tens of thousands of dollars used to buy equipment and inventory. One program, NEF, has considered offering line-of-credit loans to their customers in order to meet this need. Other fledgling entrepreneurs used credit cards to pay for personal expenses—groceries, for example—until their businesses could generate income for them. More than one microentrepreneur interviewed said that they just couldn't catch up with their personal credit card debt, even though their business was generating income for them.

ENTREPRENEURS

Microentrepreneurs need more than just credit.

Access to credit and business training are the most obvious and needed services provided by microenterprise programs to their clients. Both theorists and practitioners have recognized these needs for years. New research documents this claim from the point of view of poor entrepreneurs and potential entrepreneurs. Entrepreneurs interviewed for the SELP study ranked lack of capital and lack of business knowledge and skills as the top two barriers they faced in becoming self-employed. At the same time, there are many less obvious, but arguably equally important, ingredients that separate disenfranchised entrepreneurs from those who are better off. Participants in the SELP study claimed that support from relatives, education, and training all encouraged self-employment. Other inputs cited as contributing to success include personal and professional networks that middle- and upper-class entrepreneurs commonly access in order to reach potential suppliers and buyers as well as to obtain start-up and expansion capital for their business. Entrepreneurs who are better off are also more likely to have access to child care, health care, and other necessary social services than are poor entrepreneurs.

Consistent with the above, the IWPR study found that self-employed current welfare recipients are most likely to emulate the successes of self-employed former welfare recipients if they “receive additional training, access to financial and educational resources, and work more hours” (Spalter-Roth et al. 1994, 35).

We found that only 22 percent of the microentrepreneurs we interviewed had any prior business training. Those with such experience most often attended one-day seminars at community colleges, or participated in other stand-alone sessions. Thirty-two percent listed some job-related training received. Most of this training was in specific sectors. Artists often reported that they took classes in ceramics, pottery, jewelry making, and the like to learn new techniques. Also, a few of our respondents had businesses under state regulations for continuing education (child care, mortgage lender, social work). In general, however, most microentrepreneurs interviewed had little significant job or business training before contacting the microenterprise program. Many, however, had critical experience in their line of business. The owner of a machine shop in Iowa had worked as an employee in a machine shop. A self-employed masseuse in California had done massage as a spa employee. The owner of a television repair shop had learned to repair electronics from his parents when he was a boy.

Microentrepreneurs can be found across a broad socioeconomic spectrum.

The microenterprise strategy was imported to the U.S. as a way to serve low-income potential entrepreneurs—in part because this is the group the strategy serves in the developing world. Research completed thus far shows that the group using program services includes the poor, but also serves a much wider group. According to the most recent SELP data, 42 percent of program participants earn less than $18,000 per year; 15 percent earn more than $30,000. Individual programs vary widely depending upon their missions and target markets. The participants in the SELP study reported a median annual income of $29,054. The range is quite dramatic, however, with 20 percent reporting annual incomes below $6,000 and 15 percent reporting annual incomes above $30,000. The size of this range indicates that income level is not the only factor impeding access to credit and training. This range also implies that client pools within any given program are incredibly diverse, and therefore probably difficult to serve uniformly. Income level is a tricky indicator to use to gauge a population. The income data reported by SELP do not take household size into account, nor do they distinguish between households in which the entrepreneur is the only earner and households in which another earner is present.

Our research was able to make such distinctions. Of the entrepreneurs interviewed who reported monthly income figures (about half), the mean income was $2,615 per month—slightly more than $31,000 per year. However, the distribution of those incomes, shown in Figure 2.6a, reveals a large number of families with monthly incomes below $1,500. The *median* income in our study group was $1,838 per month, or $22,000 per year

The number of microentrepreneurs (45 percent) who have other household income, generally from a spouse or partner, causes this wide distribution. When we examine only those cases where the microentrepreneur provides income for the household, a different picture emerges. For this subset, the mean monthly income falls to $1,749, with a median income of $1,500 per month. This translates to an annual income of between $18,000 and $21,000 for those single-income households that rely solely on their business. For these individuals, the share receiving public health insurance jumps from the 20 percent observed in the general survey population to 32 percent. See Figure 2.6b.

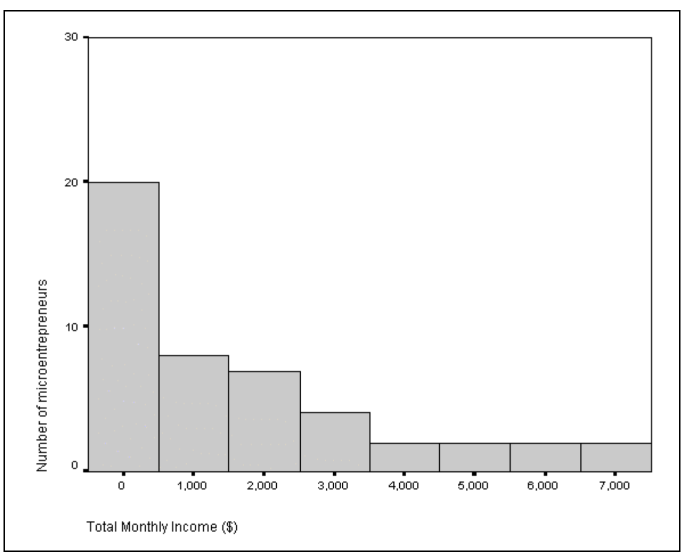

Figure 2.6a Total monthly household income for all microentrepreneurs responding

Source: Client survey

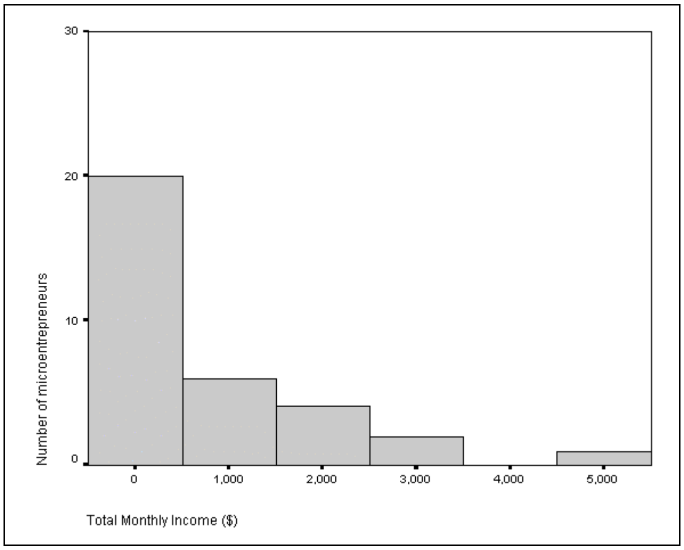

Figure 2.6b Total monthly household income for micro-entrepreneurs with no other income sources

Source: Client survey

Survey data can provide only a snapshot, whereas change over time is much more telling. The SELP study is longitudinal and will look at these changes once it is completed. Other questions that need to be addressed include: Does current low income reflect chronic poverty, or has the potential entrepreneur left a lucrative position in order to pursue a dream of self-employment? Our pool of interviewees included both types. Also, if an entrepreneur's income falls after moving from wage labor to self-employment, does this indicate failure, or is she actually happier, spending more time with her family, participating in the community? Does a drop in profits reflect inadequate business training, or a downturn in the economy?

Most microentrepreneurs have had some college education and some experience in their business.

While many program participants are low-income, nearly all existing data show that the typical microentrepreneur is an educated, skilled worker who pursues self-employment in order to increase her income or improve her life. In addition, microentrepreneurs are relatively well educated. As shown in Figure 2.7, 96 percent of the microentrepreneurs interviewed for this research have completed high school or have obtained an equivalency degree. In Lawrence, where the majority of the client population consists of immigrants, 49% had less than a high school education. This is a somewhat stronger finding than the 83 percent of SELP participants who have a high-school-level education or better. Forty-six percent of our study respondents have some college or a technical degree—again, stronger findings than the 39 percent in the SELP group. Twenty-four percent of our participants have a college degree, and 10 percent have completed some postgraduate work. The SELP study found identical results for these categories (Clark and Kays 1995,17).

Sixty percent of SEID respondents had prior experience related to their business (Raheim and Alter 1995, 33). In the current economy, *some* college education no longer translates reliably into a stable, well-paying job with benefits that can sustain a family. This data tells us what we might expect about any population of entrepreneurs: self-employment is serious business and requires time, skills, experience, and some kind of financial safety net.

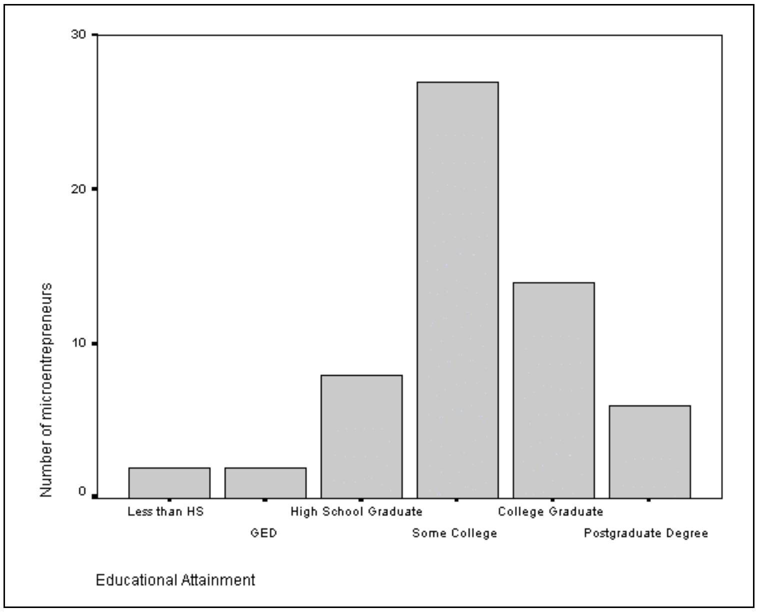

Figure 2.7 Educational attainment of microentrepreneurs interviewed
Source: Client survey

Nearly half of all SELP respondents own their homes, and most households (63 percent) have three or fewer members. Sixty percent of microentrepreneurs surveyed have no children under the age of 12 living with them (Clark and Kays 1995). Of the microentrepreneurs we interviewed, nearly all (97 percent) had three or fewer children living in the household; 42 percent reported having no children living with them. Sixty-two percent of the SELP respondents are from a minority ethnic group, 78 percent are women, and more than two-thirds are between the ages of 30 and 49. Our interviewees reflected somewhat similar characteristics. Two-thirds of our respondents were also ages 30 to 49, with 50 percent between the ages of 36 and 49 (see Figure 2.8). The only significant difference between the SELP respondents and our respondent pool was that only 39 percent of our interviewees were from minority ethnic groups, compared with the 62 percent reported in the SELP study.

While many microenterprise programs set out to bring entrepreneurship to the most disadvantaged populations, the portrait of the average entrepreneur that has emerged makes sense given the demands involved in running a business. Perhaps the emphasis should not be placed on the recognition that programs are not serving the market they set out to serve, but rather on the reality that credit and training gaps exist much higher up the socioeconomic scale than might have been expected. Skilled, educated people are not being served by traditional financial institutions. Forty-six percent of SELP respondents attempted to obtain business loans from other institutions; of these, 53 percent were denied credit. This finding does not imply that the microenterprise strategy is failing, but it does shed some light on the population that is best equipped to access the self-employment option. Interviews with borrowers in the six programs studied for this research support SELP findings. The participants in these programs are at the least very highly motivated; often they are relatively well-educated, experienced in their line of business, and have a support network of family and friends that provides them with a kind of safety net. The microenterprise strategy, although generally targeted toward disenfranchised populations, is not meant to attract "victims." Rather, it is a magnet for potential community leaders, people who are in a position to use these programs to help them help themselves and their businesses. The self-employment option is clearly best suited to a very specific niche population, one that includes elements of—but does not encompass—the persistent poor.

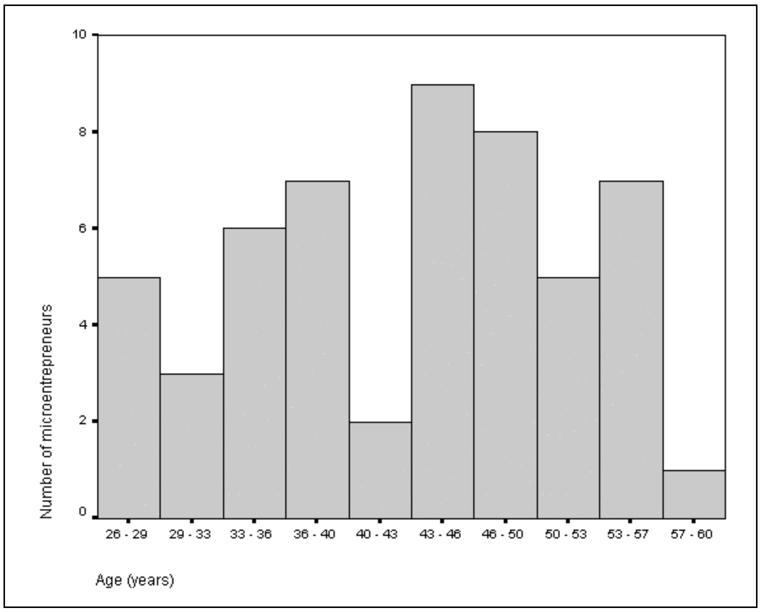

Figure 2.8 Age distribution of microentrepreneurs interviewed
Source: Client survey

Most microentrepreneurs are women.

Of the microentrepreneurs interviewed for this project 80 percent are women. Even though only two of our programs directly target women, Table 2.6 shows this to be consistent across all programs. Considering a larger sample of programs, 78 percent of SELP participants are women. While many programs specifically target women, even those that do not find that the majority of their clients are women. Interestingly, women are also the primary users of LDC-based programs. This finding implies that mainstream institutions—economic, financial, and educational—do not meet women's needs adequately. Increasingly, women are charged with ensuring the economic and social stability of their households. Their use of microenterprise programs is evidence of their willingness to experiment with alternative ways of achieving self-sufficiency.

TABLE 2.6
Gender of Microentrepreneurs Interviewed, by Program

	ISED	*NEF*	*WEB*	*West*	*WESST corp*	*Working Capital*	*Total*

Female	77.8%	50.0%	100.0%	87.5%	92.3%	83.3%	79.7%
Male	22.2%	50.0%		12.5%	7.7%	16.7%	20.3%

Source: Individual programs, client surveys

The feminization of poverty has created a population of women who need new strategies to help them provide for themselves and their families (Pearce 1989; McLanahan and Garfinkel 1990; Spalter-Roth et al. 1994). This phenomenon is generally understood to be the result of demographic and economic changes that have placed women in a double bind of sorts, wherein they are required to perform both economic and household duties. Shifts in the structure of the global economy, the increasing number of female-headed households, and the continued segregation of available jobs have changed women's position within both the household and the larger economy (Hartmann 1987).

According to Robert Friedman, executive director of the Corporation for Enterprise Development, the microenterprise movement in the U.S. began as a response to the needs of women who found themselves the head of their households. Minneapolis-based Women Venture, founded in 1983 by Kathy Keeley, a woman field experts have called the mother of the microenterprise movement in its U.S. context, explicitly combined economic development and social welfare goals from the outset. According to Friedman, "When you're dealing with low-income women, the kids are there, right? So Kathy [Keeley] had them write child care into the business plan…. The more holistic, more flexible view always combines business and financial skills on the one hand, and is also concerned with family and personal development."

Microentrepreneurs pursue self-employment for two sets of reasons.

The SELP study found that the majority of respondents, 53 percent, sought self-employment because they needed more money or because they were unemployed. These people may have viewed self-employment not as a real choice but rather as their only economic option. It is increasingly difficult to find jobs that pay a family wage and come with benefits. Further, the microentrepreneurs surveyed generally possessed a skill or love for a particular activity that could serve as the basis for starting a business. Twenty-eight percent reported that "they started their business because they love what they do, they have the skills, and because they saw a market opportunity or community need that they thought they could fill" (Clark and Huston, 1993, 7).

There appear to be two main categories of people who pursue self-employment: 1) "true entrepreneurs," who would always prefer to work for themselves even if this does not appear to be an economically rational decision (i.e., they may work for lower wages and for longer hours in self-employment than they would in a regular job); and 2) those for whom self-employment is their best available option.

True entrepreneurs. True entrepreneurs pursue self-employment because they do not seem to fit into the mainstream economy. Several of these entrepreneurs, we found, had had training in a variety of areas, but were unable to settle into a regular job. Before starting her day-care business, Grace had worked as a nurse's aide and had obtained her cosmetology license. She continues to do hair for a couple of regular clients, which supplements her income from public assistance and from her business. Dwight decided to open his own machine shop after being unable to resolve conflicts with his former employer. Sangeetha and Dan had also both had conflict with past employers. Asked why they preferred self-employment to work in the formal economy, Dan said:

> It's calling your own shots. You know, you do good work for someone else, show care and commitment, and they walk on you. Making them money and them showing no respect. I think entrepreneurial people really feel the shackles. This was our last shot.

They, like other true entrepreneurs interviewed, also decided to pursue self-employment because they believed in their product or service and got a great deal of satisfaction out of making customers happy.

Best available option. Several subcategories exist within this category, including those who would gladly work for wages if they could make enough to support their families, and those whose life paths were interrupted by an unexpected event such as an unplanned pregnancy, a job layoff, or the dissolution of a marriage. In Iowa, three of the entrepreneurs interviewed turned to self-employment after losing well-paid factory jobs. They did not consider low-wage work without benefits to be an option, largely because it did not pay enough to allow them to afford child care and did not provide medical benefits for their children. Self-employment offered more hope and opportunity than did low-wage, unstable jobs. Angie, a single mother of three, lost her ten-dollar-an-hour job with a meat-packing company in a small, industrial Iowa city when the plant where she worked closed in 1986:

> I worked for a while as a school associate but it wasn't enough to carry the load. I went on welfare and I had three kids at home at the time. I was in the middle of buying a house when the plant closed, and my bills got to the point where without a college degree I couldn't get a job that would support us, so it was kind of sink or swim. My kids' fathers were absent and I wasn't getting any child support.

Angie went through the ISED program and opened a consignment clothing store, which helped her to exit welfare. Still struggling to make ends meet each month, Angie claims that she could not have made the transition without the waiver, ISED, or her mom, who has "been here from the word go." Self-employment has enabled Angie and her family to survive without public assistance, but the road has been rough. She does not make nearly what she made at her previous job, and her family has sacrificed a great deal. Asked what advice she would give someone who is where she was ten years ago, Angie said:

> I'd tell her to go to school, don't necessarily go into business. Your family makes more sacrifices this way than if you work a 40-hour week. It's nice to be self-employed but it's also nice to have a paid vacation. It takes more dedication to do this. I felt like self-employment was really my only option. If I could have gotten another job that paid well, I would have taken it.

Others pursue self-employment because of their family situation. Jim, one of two single fathers interviewed for this study, has two daughters. After his wife abandoned the family, he left his job at a battery company because he could not spend the time required to make out-of-town deliveries and still care for his daughters. In February 1995, he quit his job, went on public assistance, and began a television repair business in his basement. After working with ISED, he moved to a storefront. Having a business, he says, allows him to take better care of his children.

He is closer to home and can get away more easily if one is sick. Jim has also relied on Iowa's waiver program, as well as a critical network of support from family and ISED, to start his business.

Like the true entrepreneurs, many of those who originally pursued self-employment because of an unplanned event claim that they much prefer self-employment to working for someone else. The advantages they cite include flexibility, control, pride in what they do, and freedom. The disadvantages include long hours, unreliable income, and lack of benefits.

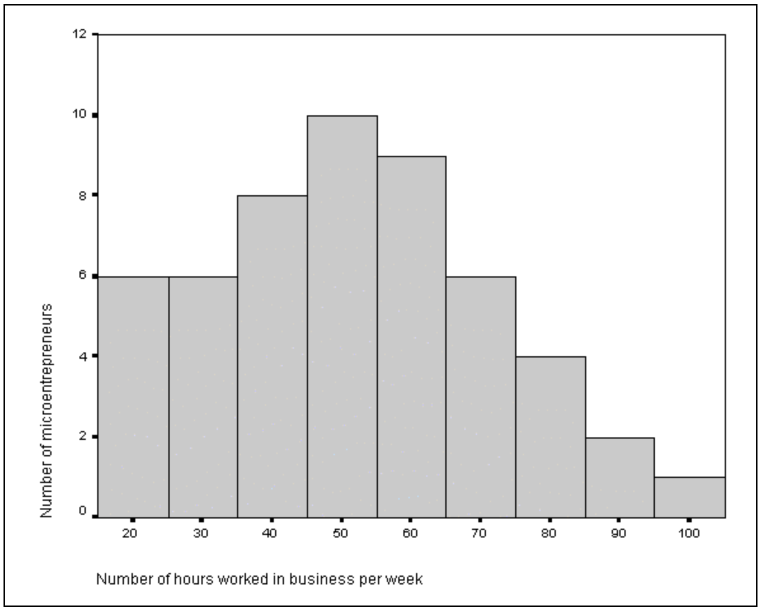

Figure 2.9a Hours worked in business per week (all respondents)

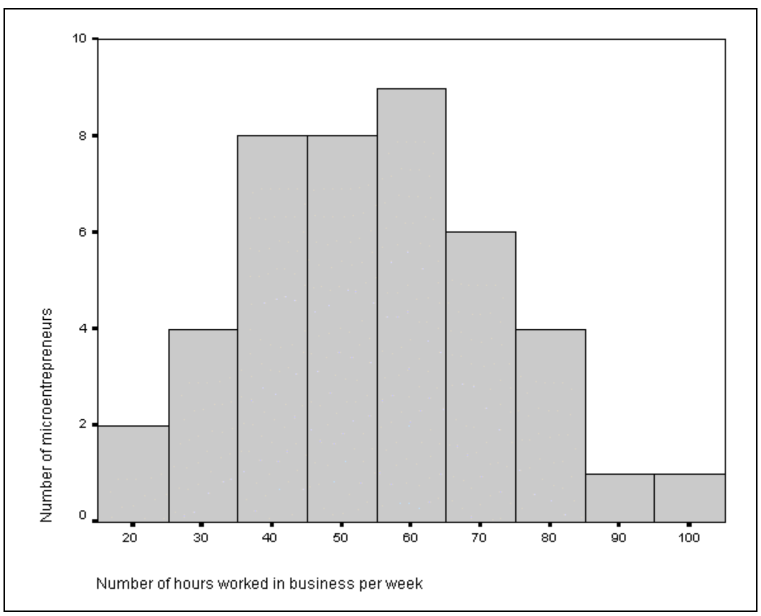

Figure 2.9b Hours worked in business per week

(microentrepreneurs with no other job)

Source: Client survey

Most microentrepreneurs have strong support networks and are fiercely determined to succeed.

For many of these entrepreneurs, self-employment allows them to more easily fulfill their household and economic obligations. At the same time, most have a solid support network of family and friends. Angie's mother and Jim's brother watch their stores when they need to be elsewhere, and Grace's sister helps her with financial planning and bookkeeping. Dwight's parents and Jim's father watch their children after school. Others had help from family and friends with renovations to their storefronts and donations of other necessities.

Microenterprise programs clearly add to and strengthen these networks. Many of the entrepreneurs interviewed spoke of the importance of the relationships they had forged with the business consultants and trainers at microenterprise programs. These relationships function to boost self-confidence and to get entrepreneurs to a place that enables them to seriously pursue their businesses. Most of the successful entrepreneurs maintain these relationships after graduation, continuing to use them as a resource to obtain access to information, funding, and other resources.

Examples of entrepreneurs' resourcefulness and ability to start a business on a shoestring abound. Dwight could not afford to buy much of the equipment he needed for his machine shop, so he improvised by building his own using cast-off equipment that he salvaged. He was able to get a bank loan for $15,000, which he used to buy plumbing supplies for the system he installed himself and machinery he could not make. His workshop, in a shed next to his house, is heated with only a wood-burning stove.

Successful entrepreneurs work very long hours and invest enormous amounts of energy in their businesses. Sangeetha recalled that:

> In the first few years, when [our son] was very little it was very hard. I was working until late at night, coming home with blisters on my hands. We have just put so much energy in this business. Sometimes I thought I could not do this anymore. But the next day you go again.

The entrepreneurs interviewed for this study work well in excess of a standard 40-hour week. The average amount of time they invested in their business was about 50 hours a week. Of those who relied solely on their business for income and had no additional waged work, the average was almost 55 hours. Most worked between 35 and 70 hours a week (Figures 2.9a and 2.9b). These numbers are consistent with other studies. And when times get tough, they work harder, either putting more energy into their businesses or picking up extra side work to supplement their income.

CONCLUSION

The findings in this chapter illustrate the great diversity that exists across microenterprise programs and the entrepreneurs and businesses served by these programs. At the same time, clear trends have emerged across all of these categories. We use these trends as the basis for the policy recommendations we make in Chapter 4 of this report.

3

The Microenterprise Strategy Compared with Other Economic Development Tools

INTRODUCTION

This chapter examines the microenterprise strategy in the context of a range of other economic development tools. We begin by examining the policy context in which the microenterprise strategy exists and follow this with a comparison of the microenterprise strategy with EDA revolving loan funds and other economic development strategies. An exploration of the ways in which microenterprise program staff and field experts view their economic development work follows, and we conclude the chapter with findings.

POLICY CONTEXT

While the microenterprise strategy is presented here as a new kind of program, lending and business training programs have appeared sporadically throughout the history of local economic development. During the late 1960s, the Model Cities program attempted to establish businesses that would employ poor people, although there was no requirement that they be run by the poor. At approximately the same time, the Small Business Administration (SBA) extended many thousands of Economic Opportunity Loans (EOLs) to poor people, "few [of whom] possessed the necessary skills, education, or work experience that successful business operation commonly requires" (Bates unpublished, 3). These programs, which routinely granted loans of up to $25,000, failed to provide much training or to address the needs of these entrepreneurs for assistance beyond mere credit. As a result, rates of loan delinquency and default were very high.

The urban economic plan of the current administration recognizes the need for capital and training in U.S. inner cities. The key components of the Clinton plan include: funding for Enterprise Communities (ECs) and Empowerment Zones (EZs); a strengthening of the

Community Reinvestment Act (CRA); and the creation of a national network of microenterprise programs and community development banks. The implementation of these strategies is still in the works, which makes it too soon to evaluate their effectiveness.

Although federal funding for the microenterprise strategy has been increasing steadily in recent years (see Chapter 2), this funding is currently fragmented, and program officers and field experts have expressed dissatisfaction with the ways in which microenterprise development is supported at the federal level. The Small Business Administration (SBA) is the agency that has provided support for the longest time. Other limited support is available through the Community Development Financial Institutions (CDFI) Fund, the Office of Refugee Resettlement, the Job Training Partnership Act (JTPA), and the Job Opportunities for Low-Income (JOLI) program.

The explanation for the creation and rise in popularity of microenterprise programs in the United States lies partly in the strategy's integration of social welfare and economic development goals. This blending did not occur spontaneously, however; microenterprise programs encapsulate critical shifts that have taken place recently in both areas.

Economic development theory and practice at the federal, state, and local level has evolved over recent years, including: a shift from business attraction to business generation; decentralization of the responsibility for economic development, with greater activity occurring at the local level and through private nonprofit organizations; and increasing creativity of government. Given the new orientation of economic development, the logic by which the microenterprise strategy has emerged and gained in popularity seems relatively straightforward. Microenterprise programs focus on business generation rather than business attraction. In addition, programs are usually conceived and operated at the local level by grassroots organizations. Finally, most microenterprise programs began as private nonprofit organizations, bringing in local, state, and/or federal government partners at a later stage. This structure has enabled both the programs and their public partners to behave in a more entrepreneurial fashion.

The shifts in approaches to poverty alleviation, which are admittedly more theoretical than practical, include: universal programs with a targeted component rather than strictly targeted programs; increased use of asset-based strategies (such as the Earned Income Tax Credit) as opposed to income-based strategies (such as Unemployment Insurance). The microenterprise strategy clearly makes sense in light of these changes when considering how best to alleviate poverty. Programs exist in both targeted (WEB, ISED) and universal forms (Working Capital, WESST corp). In addition, the microenterprise strategy is clearly based on a philosophy of asset building. The goal of most microenterprise programs is to provide people with access to the resources they need in order to attain economic self-sufficiency.

The microenterprise strategy compared with EDA revolving loan funds.

Revolving Loan Funds are currently EDA's closest cousin to the microenterprise strategy. A revolving loan fund (RLF) utilizes a fixed or working capital investment that is repeatedly loaned as prior loans are repaid. Distinct from conventional financing mechanisms, RLFs, apart from the need to remain operationally viable, are not predicated on a profit motive. Rather, RLFs are often established to meet a credit need in sectors or for investors where conventional financing is not available in furtherance of one or more public purposes, i.e., job creation, business expansion, or new business start-up.

EDA stipulates that Revolving Loan Funds must be part of a larger strategic economic adjustment process for the particular region. The strategies developed by applicant communities may not include targeting among the population those most appropriate for microenterprise programs: lower-income women or others lacking access to jobs with adequate wages and benefits. Of course, microenterprise development could be a sector targeted by the economic adjustment strategy, but so far it has not been the choice of EDA applicants. Military base closings provide one example of where RLFs are incorporated into a larger package of EDA financing. A locality decides to develop a particular sector of its economy in response to the shutdown. EDA can provide grants to convert the physical military base for other uses and to establish an RLF to provide gap financing to new firms in this sector.

EDA Revolving Loan Funds are used to make loans to businesses in a particular sector in a distressed economic region. They are established with a grant of public funds that must be matched with local (private) support at a 2:1 ratio—that is, $2 of other funds per $1 of EDA RLF grants. A key component of EDA RLFs is that they cannot be used in lieu of conventional sources of financing; they are intended to meet the financing needs of firms that cannot access other forms of credit.

Given that the EDA RLF is a structural adjustment tool, loans tend to be large and to concentrate in manufacturing sectors. The Arrowhead Regional Development Commission (ARDC) in northeast Minnesota—where NEF operates—has made 51 loans between $25,000 and $100,000 (as of March 1998) with its EDA RLF. Of those 51 loans, only four have been written off. A fourth capitalization of the loan fund is underway with a $500,000 grant from EDA, which will leverage $20,000,000 in private capital, according to the loan fund manager. While most of the loans made have been in the manufacturing sectors, some loans have been in the tourism/resort sector, another targeted sector of the ARDC.

Because EDA RLF loans are required to be subordinate to other creditors[1] (such as traditional banks), borrowers come to an RLF with a well-established business plan, often an ongoing business, and the experience of having dealt with lenders before. Microenterprise clients often share none of these characteristics. They tend to be in start-up businesses, and often have no formalized business plan. And although microentrepreneurs may have experience with traditional credit institutions, their credit needs are far smaller than those of RLF borrowers.

The most striking difference between microenterprise programs and RLFs, however, is in the realm outside of lending. Microenterprise programs spend the bulk of their resources on training and technical assistance (see Chapter 2). Many clients do not obtain financing through the microenterprise program, and those that do are carefully coached throughout the borrowing process. Some programs, such as West Company, require that borrowers continue to engage in technical assistance throughout the term of the loan. For these individuals, the knowledge they obtain about running a business is as important as—if not more important than —the financing they obtain.

Although EDA economic adjustment grants can include funding both for RLFs and technical assistance, RLFs do not generally offer technical assistance. At the ARDC, clients who need specialized technical assistance (a rare occurrence, according to the RLF administrator) are referred to another agency, such as a Small Business Development Center (SBDC) or a community college, for help. This RLF maintains no staff to provide technical assistance. It simply provides the crucial gap financing for firms in targeted sectors.

[1] The marketplace requires EDA to take a subordinate position to other creditors; this is not an EDA requirement.

The microenterprise strategy compared with other job creation strategies.

Microenterprise programs rarely see themselves as strictly job creators. As a result, microenterprise program goals include job creation as only one of the range of outcomes to be produced. As discussed elsewhere in this report, most programs focus on self-sufficiency through self-employment for the particular microentrepreneur, but also consider decisions not to pursue self-employment or obtaining a regular job as successes. Despite this, microenterprise programs perform well when compared with other job-creation strategies.

The most traditional forms of economic development fall under the broad heading of industrial recruitment. Such strategies attempt to attract new (or maintain existing) firms to a particular region. The primary stated goal of such programs is to create (or retain) jobs. The mechanisms for such development are well-known and include tax credits and abatements, worker training programs, infrastructure investments, and site preparation.

Timothy Bartik (1992) found that state and local taxes have a significant negative impact on local business activity, contrary to the commonly held perception that local taxes are such a small part of firm expenses that they have no impact on business activity. He computes the annual cost per job created by general business tax reductions as "probably in the range from $1,906 to $10,800." That is, for a single job to be created, tax cuts in this range would have to be engineered.

Milward and Newman (1989) examined a number of recent incentive packages assembled for automobile plants in the Midwest. They discovered a wide range of incentives offered, including those mentioned above. For the six "deals" they examined, they found a cost per factory job created ranging from $11,000 to $50,580. What is revealed in these two analyses is the wide range of costs per job created in the traditional industrial recruitment economic development strategy.

Another popular economic development tool has been business incubation. In a 1997 study funded by EDA, Molnar et al. examined the seven-year results of business incubators. Their findings reveal a public subsidy per direct job created of between $1,500 and $2,000. Other monies have been leveraged against this public support, so the actual total cost per job created is likely higher, although it is not revealed in this study.

EDA, through its Public Works Program, supports infrastructure investment as a job creation strategy. In a May 1997 performance evaluation of the Public Works Program, Burchell et al. (1997b) found that $3,058 in EDA funds were spent per job created or retained. The total cost—including leveraged private capital—was $4,857 per job created or retained. A later study by Burchell and Robison finds that the EDA cost per job created—including multiplier effects—is $1,119 in a typical county (as compared to the $3,058 of EDA money per direct job created).

TABLE 3.1

EDA and Total Cost per Job, Defense Adjustment Program

	Completed Projects	*Total Jobs*	*EDA Cost per Job ($)*	*Total Cost per Job ($)*
Defense Construction	49	30,870	8,052	12,045
Capacity Building (TA only)	31	1,952	13,633	19,393
RLF (complete)	16	7,977	3,312	3,822
RLF (in process)	21	3,772	4,079	5,439

Source: Burchell et al. (1997a, 28)

Another EDA program, the Defense Adjustment Program, provides capacity-building, infrastructure investment, and revolving loan fund (RLF) money for military installation conversions to assist communities in recovery from the economic impacts of base closure. As shown in Table 3.1, Burchell et al. (1997a) found that the total cost per job created ranged from $3,822 in the completed RLFs to $19,393 in the capacity-building programs. It should be noted that RLFs become increasingly less expensive over time as the initial capitalization is repaid and funds are re-lent.

Microenterprise development has a comparable cost per job created to these more traditional forms of economic development. One of our case study programs (NEF) was able to provide us with appropriate program data. Their cost per business[2] is approximately $8,800. On average, their customers' businesses create or retain 1.8 actual jobs, so the program estimates a cost per job of $4,900. NEF's average financing per business financed is $9,000, which yields a cost per job for financing of $5,000.

Two of the seven SELP programs collected data sufficient to compute the average cost per job. For ISED that figure was $4,114 and for Women Venture it was $6,155. As shown in Table 3.2, these results compare closely with the traditional economic development strategies discussed above.

TABLE 3.2

Cost Per Job for Various Economic Development Strategies

Type of Economic Development	*Cost per Job*
Industrial Recruitment	
Tax cut only	$1,906 to $10,800
Automobile Plant Attraction	$11,000 to $50,580
Business Incubation	
Business Incubation Works	$1,500 and $2,000
EDA-Sponsored Programs	
Public Works Program	$4,857
Microenterprise Development	
NEF	$4,900 to $5,000
ISED	$4,114
Women Venture	$6,155

Sources: Bartik (1992); Milward and Newman (1989); Molnar et al. (1997); Burchell et al. (1997b); program data.

More important than the actual cost per job created is the appropriateness of a particular economic development strategy for a region. In rural regions dominated by small communities, industrial recruitment strategies are simply not appropriate. Renay Robinson-Scheer, executive director of the Northeastern Nebraska Development District (an intermediary organization for municipalities) notes this particular problem in her region:

> Ninety percent of the communities I represent have populations of less than 500, so industrial development is not going to happen. In the rest, they just aren't distressed places. So Nebraska in general has been really unable to use that recruitment of big industry approach.

2 . Computed as the program's total budget divided by the number of businesses. This includes the operating budget (training, TA, loan fund administration, and other overhead), but no loan capital.

Jenne Rodriguez, head of the Community and Rural Development Division of the Nebraska Department of Economic Development, voiced similar concerns:

> If you look at the economy, job generation, self-employment is a big part of it in an agricultural state. It doesn't have the sexy status that industrial recruitment has. More and more resources are going into serving these smaller businesses.

This sentiment was expressed by many of the local economic development officials we interviewed in our case study regions.

It should also be noted that microenterprise development is a long-term strategy for a region. Unlike industrial recruitment—where a plant will open with 1500 jobs—microenterprise programs take time to start and develop successful businesses. Across our case study programs, we found that a microentrepreneur will work with a program for several months before starting his or her business; it will then take additional time to nurture that business into a successful enterprise. Because even the oldest microenterprise programs have existed for only ten years, we cannot access the true potential of this strategy as a regional economic development tool.

In addition to being an economic development tool, microenterprise is a personal development strategy, which should factor in to our comparison of other employment and training programs. Practitioners have also suggested that individuals who complete entrepreneurial training, even if they do not start businesses, are better employees. Both issues fall beyond the realm of this work, but are important aspects of microenterprise development. Practitioners and field experts comment on their economic development work in the next section.

How microenterprise program staff and field experts view their economic development work.

Case study program staff and advisory board members discussed with us how they view their work in the context of economic development. Most felt that parts of their programs fit into traditional economic development definitions, but they also believed that the scope of what the microenterprise strategy does presents a challenge to the standard conceptions of economic development. According to June Holley of ACENET:

> We certainly do economic development. We are in an area with high unemployment rates and we are trying to stabilize out-migration. One of the things we are geared toward is having our small businesses capture dollars from other parts of the nation.

Another advisory board member said:

> Those of us doing grassroots community work don't want that [traditional definition] imposed on us. But I am not sure the answer is to redefine that, or saying we need to expand the measurement.

Yet another asserted that:

> Traditional measures miss accounting for any network the entrepreneur is in, and how that begins to change communities.

We also asked advisory board members and program staff what they thought government officials needed to know about the microenterprise strategy. One member said that she has used the following strategy to deal with the economic development officials in her region:

> What we have done is built a relationship with economic development language, and then after a few years, they see what is happening. You begin to help people think more complexly about these things, and you find the most innovative thinkers, and talk to them.

Another described her approach:

> First we find the folks who understand the complexity of any kind of development. Telling them this is not the silver bullet is a relief to them, because they don't think you are trying to sell them the magic cure. What we put in is the vehicle, the approach, and the self-employment is the burning in of the practices.

For the most part, those that have worked to create good relationships with their local economic development officials have benefited from some luck because the officials in their area have been responsive and willing to try a new strategy. For example, some of the programs we studied had good relationships with their regional EDA officers, while others found EDA to be unresponsive to their requests for funding for microenterprise development in their area. In all cases, program staff have had to educate public officials about how the microenterprise strategy contributes to economic development. Programs that are younger and stretched thin in terms of resources are less likely to be able to devote time and energy to the education of public officials.

FINDINGS

The microenterprise strategy does not fit cleanly into the economic development lexicon.

Gaining a more complete understanding of what occurs in these programs requires recognizing that the microenterprise strategy operates between the traditionally separate fields of economic development policy and antipoverty policy. The characteristics that define the microenterprise strategy blur the line between traditional economic development, which is based on working with economic conditions, and poverty alleviation, which is often based on "reforming" individual and family characteristics.

The results of our case studies show that, both through the process by which programs provide access to credit and through the outcomes that are achieved, these programs accomplish goals that marry traditional economic development and poverty alleviation objectives. The fact that these programs fail to fit neatly into either policy sphere causes them to risk poor performance ratings using traditional evaluation techniques. We discussed this problem in Chapter 2 and make recommendations regarding how to remedy it in Chapter 4.

The microenterprise strategy is neither strictly people-based nor place-based.

The debate over whether economic development strategies for distressed areas should focus on people or on places also reinforces the split between economic development and social welfare: economic development strategies generally target places, whereas social welfare programs tend to focus on people. Strategies that target people often categorize individuals according to attributes such as socioeconomic class and education/skill level. These strategies also look at broader characteristics that are correlated with weak attachment to the labor force, such as gender and race. Spatially oriented programs, on the other hand, target specific places. Usually these are areas in which a range of factors have impinged on a particular place to put it at a disadvantage relative to its environs.

Interestingly, microenterprise programs focus on individuals in addition to being deeply rooted in the context of the places in which they operate. This inherent dualism helps microenterprise programs avoid many of the typical problems of strictly place-based or people-oriented strategies. Microcredit programs neither restrict people's economic and residential mobility, as some place-based programs do, nor do they attempt to reform so-called aberrant behaviors.

The microenterprise strategy must be seen as one part of a larger economic revitalization plan for distressed areas.

In states where the microenterprise strategy has already been integrated into the larger economic development plan, critics at the local, regional, and/or state levels have recognized the existence of a gap in business development services for very small businesses and disenfranchised groups. Program staff and members of our advisory board repeatedly emphasized that the microenterprise strategy is not *the* solution, it is one part of a solution. According to Christopher Sikes of the Western Massachusetts Enterprise Fund:

> If EDA is looking at this as an employment strategy it is no good. If they're looking at it as economic revitalization it's good. It is one strategy. It is part of a much larger piece. When it is used well, it works well. When it is used as a panacea, it works poorly.

Jack Litzenberg, at the Charles Stewart Mott Foundation, added to this sentiment, describing the microenterprise strategy as a tool to be employed during a difficult economic time until the economy improves:

> Microenterprise is not going to provide the wage income of a job in areas where people are hunting for a job and the jobs aren't there. It can provide some income and an alternative to work activity rather than a lot of jobs. The way I would position it in distressed areas is to ask, "Can we use this process to gain work experience, as a way to have a positive educational experience, to ride out the bad economic time." It's a patching strategy for when people are out of a manufacturing job and may later be employed in a non-manufacturing job.

The following examples illustrate how two states—Nebraska and Iowa—and one county—St. Louis County, Minnesota—have incorporated the microenterprise strategy into their larger economic development plan.

Example #1: State of Nebraska

Microenterprise in Nebraska began as a strictly rural development program. However, as the field has matured and support institutions have evolved with the state, microenterprise has become a key part of the statewide economic development strategy. Nebraska presents an example of how coordinated efforts within the microenterprise community, along with a responsive state government, have worked together to provide cohesive support for micro-enterprise development.

Gene Severens began working for the Center for Rural Affairs (a policy organization) in 1978 on issues of credit opportunities for small farms. During the Farm Crisis of the 1980s, he started to design a model of business development particular to small rural communities. He notes that for towns of 1,000 people, traditional economic development strategies do not apply. His efforts spawned the Rural Enterprise Assistance Project (REAP), at the time a strictly rural micro-enterprise program.

As the prominence of REAP began to grow, it attracted the attention of lawmakers in Lincoln, particularly a newly elected governor who wanted to refocus economic development activities on rural communities. When asked whether REAP could be made into a statewide program, Severens saw the need for a separate organization. He recalls:

> The Center for Rural Affairs focused exclusively on farm-based issues. As a result, our constituencies were very small. To become statewide would have meant moving from rural affairs. We needed to put together an effective coalition of programs—urban and rural. Microenterprise transcends both urban and rural, and I thought it would be important to start some urban programs. From that legal structure we began the process of public education. Raising funds from other sources, we started the Nebraska Microenterprise Partnership Fund.

The Nebraska Microenterprise Partnership Fund is primarily a financial intermediary that supports local microenterprise programs with state, federal, and private funds. Federal funds are available from the Treasury Department's CDFI program, of which the Partnership is an approved intermediary.

Support for microenterprise at the state level began at about the same time. Maxine Moul, director of economic development, recalls her involvement:

> In 1990 I headed up a rural development commission. It was 13 members, all living and working in small towns, on farms and ranches. They had been concerned that other economic development had focused on larger communities and bigger projects—the smokestack chasing types. We needed to focus on our own, and take the entrepreneurial spirit in Nebraska, and help them get started, and start to grow, then move to the main street, and employ more.
>
> The state's effort in venture capital field had also been targeted to the larger efforts—the $1 million loans, not the small entrepreneur who needed $5,000 or $25,000.
>
> From looking at other microenterprise that was going on in the state, we thought that this would be a model that would work. We started supporting it through the CDBG program, and through various other avenues, which eventually culminated in the legislature appropriating money for microenterprise.

Part of the funding philosophy for microenterprise in Nebraska is the matching of funds with local support. Moul notes that this forces the community to be dedicated to a project, and that generally leads to greater success. As an example, state funds are granted to the Partnership Fund, where other funds are combined before grants are made. The Northeastern Nebraska Development District receives a grant from the Partnership Fund. The Development District requires a local match from its member cities for any loans and grants it makes. The final recipient of microenterprise funds, then, has received money that has been leveraged several times. This not only increases the available funds, it adds community participation at multiple levels.

Such leveraging can be successful only where intermediary organizations are able to package funding from multiple sources. The Nebraska Enterprise Partnership Fund plays this crucial role. Additionally, Severens' personal experience with microenterprise development adds to the strength of the funding intermediary. Moul notes that since the governor is leaving in January (and she presumes that she will as well), a new administration may have other priorities in economic development. She does feel, however, that microenterprise has enough of a constituency that it will continue to be a strong part of statewide economic development. The existence of a statewide organization with performance standards for its grantees, she feels, will encourage continued state support for microenterprise

Example #2: State of Iowa

In Iowa, ISED first received contracts to provide entrepreneurial training to welfare clients. Over time, as the program evolved, ISED won contracts with the Iowa Department of Economic Development to provide entrepreneurial training in rural communities. While this led to some initial resistance from the state's Small Business Development Centers (SBDCs) (see Chapter 4), the relationship between the state DED, the SBDCs, and ISED has evolved.

David J. Lyons, director of the Iowa Department of Economic Development, sees his agency's role as providing service for all possible business ventures in the state:

> What we try to do in Iowa is to ensure that the proper spectrum of support is in place, from small business to Fortune 500 status. From programs of loan funds, of training programs, we guarantee that whatever a business could need is incorporated somewhere in our spectrum of services.

In addition to the entrepreneurial training provided through contracts, the State runs the Self-Employment Loan Program (SELP), which provides loans to self-employed residents. Started in 1987 as part of the JTPA program, SELP makes loans up to $10,000 to self-employed residents. Again, Lyons sees SELP as part of the continuum of economic development programs in the state. He notes that a strong economic development agency must have the tools to help all of those it serves:

> Here we have a very broad definition of economic development, so our tool set has broadened. Our mission statement tasks us with improving the quality of lives of Iowans through economic opportunity. For some people that will be the opportunity to get a job at the new company that has located in their community. And other people, it's going to be the ability to start their own business. For other people, it's going to be the ability to get off of welfare and into work. Our goal is to be a mirror. If someone says to themselves, I really want to do this, and I think it makes economic sense to get off of welfare and start my own business, they should turn around and say the Department of Economic Development is just what I need. And a CEO, who needs to build a 250,000 square foot addition, he should look at us and find exactly what he needs. If we are going to be that kind of virtual agency, we need extremely broad tool sets.

Example #3: St. Louis County, Minnesota

In St. Louis County, in northeast Minnesota, CDBG monies are used to fund microenterprise development projects. Two organizations—NEF and the Arrowhead Community Economic Assistance Corporation (AECAC)—have been the recipients of contracts with the County. NEF, as discussed fully in Chapter 6, operates a loan fund, in addition to providing training and technical assistance. The contract between the County and NEF is for technical assistance only. Connie Christenson, who works on economic development for the county's planning office, notes:

> With them [NEF], our support is primarily for their technical assistance programs, and not the revolving loan fund. We've found that the greatest leverage for our support is in the technical assistance part of it.
>
> In terms of small business development, I see that we have a wonderful entrepreneurial spirit here in northeast Minnesota. With this [micro-

> enterprise] as being one tool we have to use in economic development, it can be a very strong tool…Organizations like NEF that provide the technical assistance provide something to help that happen.
>
> We've also found that people that receive that technical assistance and don't make it in business do better, too. What they bring to a new employer is a greater understanding about the big picture, about how that business works. And that often makes them a better employee.

The other beneficiary of CDBG monies in the county is AECAC. With this organization, the County chose to support only the loan fund. The results were less than what had been hoped for—40 jobs created over five years. Christenson said that without proper screening and training, lending is bound to fail.

In the County's overall economic development program, microenterprise plays a major role. This is generally due to the fact that the funds available to the County have a job-creation requirement. Christenson said that given the scale of funds, the only proven job-creation strategy appropriate for St. Louis County is microenterprise:

> [In addition to a juvenile correctional facility] we've also got some storefront renovation projects going on. But up until this point, it's been primarily microenterprise, because of the requirement of the Feds on new job creation.
>
> Most of the job creation comes from small business. In our region, a handful of firms employ more than 50 people. Mining has always been an important employer, but we all saw the need to diversify the economy about ten years ago, when the last bust hit. Taconite has made a bit of a comeback of late, but we all know that it just is a cyclical industry.

These three cases illustrate how microenterprise development has been integrated into larger economic development programs. In all cases, a lead organization—be it a microenterprise program like NEF or ISED, or a statewide intermediary like the Nebraska Enterprise Partnership Fund—was crucial in coordinating and leveraging public support for microenterprise development. In both Baltimore and Albuquerque, public loan funds for small business had been started; both failed and are no longer operating. As one person from the City of Albuquerque noted:

> Public agencies shouldn't get involved with direct lending to businesses. It's way too political. We've found it far better to support proven programs, and let them decide which businesses to support. They know what it takes to succeed, far more than we do.

The City of New Brunswick, New Jersey, also runs a small microloan program. However, it has been fairly unsuccessful. According to Glen Patterson, only a handful of loans have been made, and most of those businesses have either closed or been bought out. New Brunswick has an insufficient advertising budget for its economic development programs, so the loan fund is virtually unknown in the community. And without a strong advocate—as illustrated in the above cases—public support for microenterprise is not nearly as successful.

The second- and third-order outcomes the microenterprise strategy

produces have critical economic development ramifications.

In Chapter 2 we discussed the fact that microenterprise programs do not often produce jobs beyond that of the proprietor and noted that many people choose not to pursue self-employment after learning about it in the training component of programs. These findings contribute to the perception that microenterprise development is not effective as an economic development strategy. However, field experts and program staff relayed significant anecdotal evidence that the microenterprise strategy produces important second- and third-order outcomes that contribute importantly to the economic health of a region. According to Sikes:

> Even if the person doesn't start a business, there is a substantial increase in income or other things that you can't measure one to one but they're definitely linked—abuse, drugs, violence problems. People go through training and pick up basic life skills in training courses that they didn't have before.

Barbara Johnson, executive director of Women's Initiative and a member of our advisory board, emphasizes the population of people microenterprise programs tend to serve:

> Who is the economic actor? Who owns the business? You are opening up to very low income women in some cases and that is very interesting. We need to look at changed relationships and who is relating to markets. We do count noses and dollars and hours, and yet our focus is on women changing their relationship to the market. So if you looked only at quantity rather than trajectory. . . you are really missing the boat.

The field experts we interviewed believe that people become better employees by going through the training component of microenterprise programs. Many programs have found that during their training, participants often realize that they are not ready to start businesses or that self-employment is not the best option for them. The training, however, provides them with a broad range of skills that are transferable to other arenas. Those who do not choose to pursue self-employment obtain the skills and self-confidence to use other routes, such as mainstream employment, to achieve self-sufficiency. Writing a business plan—which the majority of programs require—calls for research skills, writing skills, and the ability to work with numbers in order to forecast costs and sales. Programs also help participants learn to present their ideas, verbally and on paper, clearly and convincingly. If nothing else, the experience of going through microenterprise training appears to give people who are disconnected from the labor market a critical jump start. Asked what she would be doing if she had not gone to ISED, one entrepreneur replied:

> I'd be sitting at home…It changed my whole state of mind, my mental and physical attitude. It makes you get up, get the kid off to school, go to the library and do the research for the business…It was kind of like therapy.

Those who do not pursue self-employment often look for a regular job, and these skills can make the difference between success and failure in the job market. Jack Litzenberg, director of the Charles Stewart Mott Foundation and a longtime supporter of the microenterprise strategy, calls microenterprise programs “the best adult education programs in the country.” Most programs do not track the paths of participants who do not finish programs or who do not pursue self-employment. The extensive anecdotal evidence in this area makes it a ripe topic for research.

Staffers at all six of our case study programs also believe that those who go through training but do not start businesses bring valuable skills with them to the workplace. ISED is currently considering how to help clients who have been through the program but are not ready to become entrepreneurs use the skills they have learned in the program. Jason Friedman has begun to conceptualize the creation of a network comprised of employers who would be willing to interview those who have completed ISED’s training. ISED would effectively provide a screen for these employers.

Whether or not clients start businesses, many of the low-income interviewees claimed that they were attracted to self-employment training because—unlike welfare-to-work programs and traditional job training programs—microenterprise programs prepare people for work that offers them hope. Microenterprise programs train them to think critically, prepare for jobs they want to do, and perhaps most importantly, help them to think about themselves and their careers in a long-term way.

Programs do not perform well using traditional evaluation techniques.

Microenterprise programs’ integration of aspects of economic development and poverty alleviation strategies makes it difficult to evaluate them. Indicators used to evaluate economic development programs are generally quantitative and include categories such as jobs created, income generated, and the number of businesses within a given area. Indicators used to evaluate poverty alleviation strategies or social welfare programs, on the other hand, often consist of more qualitative categories such as changes in self-esteem and changes in family stability.

Microenterprise programs are particularly difficult to evaluate because they tend to incorporate both kinds of goals. In addition, the weight that program missions accord one function as opposed to the other, which is often manifested in the resources it devotes to training versus lending, differs greatly from one program to the next. The wide variety of positions programs take make it extremely difficult for funders—public or private—to evaluate and compare programs.

Microentrepreneurs tend to have a strong attachment to place.

Although the economic literature views labor as a mobile input to production, many of the entrepreneurs we interviewed are very attached to the places in which they live, regardless of how poor the economy is. Often they pursue self-employment because they perceive it to be the best available option for making some money while continuing to live where they live. The segment of the population that is attracted to the microenterprise strategy is a segment that does not want to move. The businesses that they create are also unlikely to be footloose. Therefore, although they are small and may take a long time to develop, these businesses should be perceived as resources and nurtured.

CONCLUSION

The microenterprise strategy works if it is well-integrated into the larger economic development plan of a region. Making this happen requires expertise on the program side and an understanding of the role that the microenterprise strategy can play from those who create economic development policy at the state, local, and regional levels. According to Malcolm Bush of the Woodstock Institute, “the microenterprise strategy is creative and relatively cheap.” The risk of trying it, therefore, is not especially great. Because the microenterprise strategy does not fit easily into traditional notions of what constitutes economic development, some vision and imagination, as well as the willingness to experiment, are required in order to implement it. Chapter 4 lays out specific policy recommendations for how to pursue the implementation of the microenterprise strategy.

4

Policy Recommendations

INTRODUCTION

This chapter sets forth recommendations for microenterprise support based on the fieldwork, analysis of census data, and literature review described in the earlier chapters of this report. We divide our recommendations into two categories: support efforts that would most likely be undertaken at the federal level, and those that are more appropriate for the local or program level.

RECOMMENDATIONS AT THE FEDERAL LEVEL

❒ Educate Economic Development Planners and Policymakers

Economic development policy and program officials fall into three categories in relation to microenterprise. The first group includes those who are working with the microenterprise strategy and understand both its potential and its limitations. A second group is comprised of those who know nothing or very little about the microenterprise strategy and have not tried to use it; this is probably the largest group. Finally, there are those who claim to have tried to use the strategy but believe that it was a failure. The latter two categories exist because of insufficient education about the microenterprise strategy—particularly confusion about the distinctions between U.S. microenterprise programs and their counterparts in the developing world. The microenterprise strategy in this country is young relative to most traditional economic development strategies, and understanding among policymakers is uneven at best.

All of the program directors we interviewed who have crafted strong relationships with government officials have done so by educating these officials. EDA can help in this area by publishing reports and sponsoring workshops that teach local and regional officials how the microenterprise strategy can be a part of a larger economic development plan. The public officials we spoke with who put little stock in the microenterprise strategy tended to relay to us the same myths that program staff and field experts are working to debunk. The most common misconception is that microenterprise development is primarily about making loans. Other myths include the notion that the microenterprise strategy is the answer to the welfare reform problem; the idea that microenterprises grow into large businesses and employ lots of people; and the belief that the microenterprise strategy is a solution for a host of economic ills. Welthy Soni, director of Business Start, claims that it is time for policymakers to catch up to practitioners in terms of their understanding of what the microenterprise strategy can and cannot do:

> The field as a whole has come to recognize that not everyone is cut out to be an entrepreneur. The field is more pragmatic. But there are a lot of trends in this country with downsizing and changes in the way the workplace looks. There is a great deal of entrepreneurship so microenterprise development is on the cutting edge. But there is a lag in terms of funders and policymakers in realizing this. Practitioners are always first. Legislators like to have successes and like to have endings. When they don't see change immediately, they want to cut it.

Policymakers need to be educated about what specifically the microenterprise strategy can do, then use that knowledge appropriately in their larger visions for economic revitalization.

❒ Integrate the Microenterprise Strategy into a Larger Economic Development Solution

As discussed in Chapter 3, microenterprise programs will not solve the problems of economically distressed regions alone. These programs are, however, one key piece of a larger puzzle. This research shows that the microenterprise strategy produces positive results in different types of distressed regions. To be effective, this strategy must be packaged together with other complementary programs specific to the region and its problems. Coordination among these programs is extremely important. Jack Litzenberg of the Mott Foundation believes that the ideal microenterprise program is:

> one that has adapted to its own culture, and that connects with people who lend at higher amounts. It is one that understands that there needs to be a continuum of capital in low-income communities. It is sustainable even if it is not self-sufficient. It should also have a feature of providing a support system to the client, and it should collaborate well with the community. Successful programs do not try to do everything themselves.

Some programs, such as ISED, work closely with their state departments of economic development. Others, such as West Company and the Northeast Entrepreneur Fund (NEF), participate in regional economic development organizations that help to coordinate these sorts of efforts. We found that the quality of relationships between state- and local-level officials and microenterprise programs varied, depending greatly on how receptive local officials were. As part of the education effort that we urged in the previous section, federal officials can help to broker relationships between programs and the local officials who can provide support. Forming state intermediaries is one way, but not the only way, to do this.

Another way to integrate the microenterprise strategy into the economic revitalization plans of distressed regions is to encourage regions to use a portion of their EDA revolving loan fund for microenterprise development. As we discussed in Chapter 3, RLFs generally target particular business sectors. A plan might identify a particular sector to target and also recognize that growth in the target sector will likely be accompanied by a need for the kind of small service and retail businesses that microentrepreneurs often start. The plan could specify that a portion of the RLF funds be reserved to support the growth of these new microbusinesses.

❐ Support for Operating Expenses

Program directors and field experts across the board expressed the need for more funds for general operating support. The program directors interviewed stated that microenterprise programs are often as much about training as they are about credit; it has taken policymakers and funders longer to realize this. Most microenterprise programs have had little trouble raising funds to make loans. They face much more difficulty generating dollars to support their training activities and general operations. Many field experts believe that the federal government could provide critical help in this area. According to Welthy Soni:

> The ideal place for the federal government to help is in the whole area of capacity building, helping programs to be sustainable. Getting loan money does not seem to be a significant problem. Banks are willing to lend money. Sustainability money, capacity money, is critical and it's a relatively small investment.

Some funders and policymakers are more interested in making grants or loans to programs' loan funds than in supporting the training, one-on-one, technical assistance, and mentoring programs that are critical to helping people become successful entrepreneurs. Policymakers who want to support the microenterprise strategy for welfare recipients must invest in the training side of programs. Nat Barnes, a trainer at WEB, says:

> First and foremost, it's education and training, and then TA [technical assistance] support for a long time. Something that took me ten years to get the expertise can't be done in 12 weeks. The clients need time to look at what they're doing, measure it, etc. They need to reflect on their goals and objectives and whether they made them or not.

Some of the focus on credit and failure to recognize that programs need operating support comes from the confusion between U.S. microenterprise programs and the developing world models that motivated the microenterprise movement in this country. The microenterprise strategy in the U.S. is more expensive for several reasons. First, there is a less-developed culture of entrepreneurship here than in many other countries. Second, it is generally more expensive to operate businesses here. Third, U.S. entrepreneurs must work in the formal as opposed to the informal economy, and the formal economy has higher barriers to entry. Policymakers need to recognize the differences between their developing-world cousins and U.S. programs and provide each with appropriate kinds of support.

The programs that serve very low-income people require even greater funding for training and support than do programs serving less economically constrained populations. A recent conference session ("Working with AFDC Recipients") at the Association for Enterprise

Opportunity conference[1] confirmed this finding. Participants may be lacking in basic skills or in self-esteem and self-confidence. Some programs, like WEB, have a staff person devoted to helping participants deal with the issues that act as barriers to their ability to successfully pursue self-employment. The trainers and business consultants in these programs spend an enormous amount of time both in the classroom and one-on-one with participants during training and after they have graduated. Program staff and field experts expressed frustration regarding policymakers' lack of understanding about this need for operating support. Any new federal initiative must address this need.

❐ Support Proven Programs and Models

Although the rapid growth in the number of U.S. microenterprise programs is exciting on one level, it also represents a wide range in terms of quality and experience. The attention this strategy has received in policy circles and in the media, coupled with the push for new solutions that welfare reform has motivated, has spurred the creation of many microenterprise programs in places where expertise about the strategy is lacking. Indeed, several of the field experts we interviewed expressed concern about wasted resources. Christopher Sikes of the Western Massachusetts Enterprise Fund explains the problem as follows:

> The microenterprise strategy is hot right now, especially with welfare reform happening. But federal programs are trying to mold the microenterprise strategy to what they already have and they're usually inappropriate. There is the potential to waste a colossal amount of resources.

The successful programs we studied started out as grassroots, indigenous responses to a perceived lack of credit and training at the low end. According to Sikes, "A local structure is important. There needs to be a local connection. If I see no connection I'm skeptical." All of these programs have succeeded because a key individual or set of individuals has assumed ownership of the program and because they understand the context they are working in. In places where the microenterprise strategy is well-integrated into the economic development vision for the region, these individuals tend to exist both on the program side and on the policy side. We know of at least three cases (discussed in Chapter 3) in which halfhearted, publicly sponsored attempts to create a microenterprise program failed, largely because of a lack of understanding of, and commitment to, the microenterprise strategy on the part of those in charge.

At the same time, the fact that the microenterprise field has been in existence for more than ten years in this country means that there is now a sort of "brain trust." Regions that do not currently employ the microenterprise strategy should rely on this expertise to guide the creation of new programs.

Further, we are convinced that cookie-cutter programs will not work. This research demonstrates the importance of context-specific programs. All of the programs analyzed for this study are headed by people who know the regions in which they work very well. In many ways, the differences among programs are what make them successful. If the federal government is to create new programs, it must work both with microenterprise field experts and with people who are very familiar with the problems of the particular targeted regions.

1. AEO is the trade association for U.S. microenterprise programs. The conference took place in April 1998 in Washington, D.C.

Government should work with programs. In Iowa, ISED has a contract to provide entrepreneurial training to welfare recipients as part of the state's welfare reform program. As a result of its relationship with the Division of Human Services, ISED is better positioned to connect clients with other needed social services. ISED and the State of Iowa work together to help public assistance recipients move toward self-sufficiency.

❐ Coordinate Policy

The situation of microenterprise programs illustrates how a lack of policy coordination can diminish a strategy's potential effectiveness. While public-sector financial support will certainly aid the viability of these programs, other policies actually work against microcredit, making it difficult for poor people to view self-employment as a viable option. Until the Temporary Assistance to Needy Families (TANF) legislation was passed in 1996, federal welfare regulations constituted one of these barriers, placing a $1,000 ceiling on the assets AFDC recipients could accumulate without risking losing their benefits. Additionally, many programs intend for the borrower to begin working with mainstream financial institutions after borrowing successfully from the microcredit program. In addition, despite CRA, discrimination based on gender, race, and class continues to exclude people. Therefore, the policy infrastructure that is needed to make microcredit a stepping-stone rather than a permanent haven is nonexistent.

Further, the recent spate of attention for the microenterprise strategy has generated many fragmented sources of support (see Chapter 2). EDA support must complement existing support, and that calls for coordination. Program organizers are scrambling to keep up with changes in legislation and new sources of funding. Greater coordination and support for intermediaries would make the process more efficient from both the funder and the program perspectives.

The Small Business Administration (SBA) is the federal agency that has been involved with microenterprise development the longest. Reactions from program staff and field experts regarding SBA's role were mixed. Most agreed with one advisory board member who asserted that: "SBA doesn't do a very good job of capacity building." Another advisory board member complained that the SBA system amounted to "an initiative on high that is not informed from below." Yet another complained that SBA "defines everything by numbers." Barbara Johnson, executive director of Women's Initiative, recommends that any new federal agency that becomes involved with the microenterprise strategy should:

> try to coordinate with SBA and don't duplicate what they're doing but do better what SBA is not doing. Another agency could provide equity capital to help with the fact that loan funds for these businesses are taking on more risk and they need more of an equity base. EDA could also support training, which SBA does not do. SBDCs don't work with low-income people even though they are supposed to provide technical assistance. It would be great if EDA were able to respond to what organizations like us really need, which is operating support to provide training, build access to markets, and an equity base to help take on risk.

In 1992, the SBA began to make loans to microenterprise programs. Programs were required to make relatively large loans to entrepreneurs and to repay these loans to the SBA. Both of these requirements were new to many of the microenterprise programs. The agency now also gives grants of approximately $125,000 to microenterprise programs that do not make loans.

According to Jason Friedman of ISED, "the SBA is the main federal agency for small businesses, yet it hasn't really legitimized microenterprise as a function or priority." Most federal support for the microenterprise strategy has been tacked on to existing programs and has not taken into account other kinds of support offered by different agencies. New federal support must work to eliminate existing gaps in funding and respond to needs expressed by program officials.

❒ Support State-level Intermediaries

State-level intermediaries are a relatively new form of organization in the microenterprise field. These intermediaries are state-level organizations that raise federal funds to support the microenterprise strategy, use that to leverage state funds, and channel these resources to local microenterprise programs throughout the state. Intermediaries are new players in the microenterprise field and are as yet unproved[2]. Early lessons from Montana and Nebraska (the states with the most mature intermediaries) suggest that this type of organization provides several benefits. First, it relieves some of the pressure to raise funds from the local microenterprise program. Intermediaries do not compete with local programs for funding but instead pursue sources that the local programs have trouble accessing. Intermediaries also relieve the funder of the burden of evaluation. According to Gene Severens, who helped to create the Nebraska intermediary:

> We make performance-based grants. Some programs get a lot more money than others and it's based on objective performance criteria. We have designed our evaluation techniques in a way that does not penalize programs that deal with a very hard-to-reach constituency, such as our program in inner-city Omaha that works with the welfare population.

Intermediaries distribute funds from a wide variety of sources. As an illustration, the Nebraska intermediary has money from the Small Business Administration (SBA), the U.S. Department of Agriculture (USDA), the Nebraska Investment Finance Authority, the Nebraska State Legislature, and a range of private sources. The programs that receive funding from the intermediary do not necessarily know where the money came from. Another advantage to funders is that they do not have to become experts on the microenterprise strategy in order to fund it. Severens explains it as follows:

> A state-level foundation might get interested in microenterprise but doesn't know which program works best. We offer an answer to that problem because we are a fiduciary agency. They don't have to make the decision about who gets it. Not only do we bring new money in but we bring it in in a much more rational way.

CDFI has already begun to fund intermediaries, and SBA has expressed interest in this tool. One potential role for the federal government would be to create and/or support such intermediaries at the state or regional level.

2. The intermediary as an organizational type has grown in the community development field. The Ford Foundation, the Local Initiatives Support Corporation (LISC), and the Enterprise Foundation all support city-level intermediaries that monitor and fund local CDCs, as well as raise and leverage funds for these organizations.

❐ Support the Design and Use of Appropriate Evaluation

In Chapter 2 we examined the diversity of microenterprise programs, and in Chapter 3 we discussed how challenging it is to evaluate the microenterprise strategy. This diversity of programs makes generalization difficult, even though it attests to the useful flexibility of the overall strategy and the ways in which local programs have adapted themselves to the contexts in which they operate. It also should serve as a warning that all programs are not equal and should not be judged by the same standards.

An appreciation of the flexibility and resulting variety of program types must be built into evaluation. Given the fact that microenterprise development is a long and complex process that is not yet fully understood, evaluation that tracks program clients over time is critical. Further, techniques must be devised that will track the second- and third-order economic development outcomes discussed in Chapter 3, as well as the specific connections between these outcomes and more traditional economic development achievements. Finally, given the anecdotal evidence suggesting that program clients who do not start businesses also receive significant benefits from the training component of programs, it will be necessary to follow this group and gain an understanding of how the experience of participating in the microenterprise strategy affects them. Program staff and field experts have made it clear that they want to take a lead role in the design of appropriate measurement. Sikes asserts that:

> We need the federal government to accept a standard of performance nationally. But we don't want the government to provide it. We want to provide it. They don't have the experience to create those standards. Practitioners do.

The Aspen Institute's Self-Employment Learning Project has been engaged in evaluation work for many years—primarily the SELP longitudinal study of microentrepreneurs discussed throughout this report. In 1997, the Aspen Institute initiated a major evaluation effort for the entire microenterprise field called MICROTEST. Recognizing the continued development and increasing diversity of programs in the field, microenterprise experts are now seeking to clarify and define what is to be considered a high-quality microenterprise program through appropriate performance measures.

Microenterprise, in the MICROTEST concept paper, was defined as "training, technical assistance, and credit in small amounts to disadvantaged entrepreneurs in order to boost their incomes, to create or grow businesses, and to support the broader growth of their communities." From these basic ideas, six key areas for performance measures have been identified:

- Reaching Target Groups
- Program Scale
- Program Costs and Cost Efficiency
- Program Performance (Credit Portfolio and Training Program)
- Program Sustainability and Internal Cost Recovery
- Outcome and Impact

The stated purpose of MICROTEST is to establish a working group of microenterprise practitioners and researchers who will develop and test a set of performance measures for the microenterprise field. Over the long run, this process should improve microenterprise services by encouraging programs to measure performance regularly.

In the first year of MICROTEST, a core group of 15 member programs was chosen. A larger group of associate groups was also asked to participate in discussions but was not expected to use and test these new performance measures. To date, measures for the first four areas above have been developed, tested, and refined; work continues on the remaining two areas. Two training workshops have been held for core members, and a newsletter is published regularly. Most importantly, an e-mail discussion group has been implemented for the open discussion of these measures by the core and associate members.

RECOMMENDATIONS AT THE PROGRAM OR REGIONAL LEVEL

❒ Encourage Entrepreneurs to Pursue Emerging Business Sectors

Although the data from our survey does not clearly support this, we believe that microenterprise programs should offer specific training to prepare prospective entrepreneurs to enter emerging business areas. In many cases, this kind of training fits with programs' goals of removing discriminatory obstacles. Programs focused on women, for example, could help them enter such traditional male fields as the skilled trades. A few select programs are beginning to experiment with this kind of focused training. These programs should be supported and followed closely in their early stages. Enabling women to enter emerging fields that are more likely to fully support households is particularly critical given the increasing numbers of low-income, female-headed households and welfare reform's push to move women off welfare and into work. At the same time, microenterprise programs cannot be expected to single-handedly turn disadvantaged people into successful entrepreneurs. Many microenterprise programs—including those studied here—have begun to network with related organizations and institutions, building community and fostering the creation of social capital in the process (Servon 1998).

Along with encouraging microentrepreneurs to enter emerging sectors, programs should also steer entrepreneurs away from narrow, low-income, minority markets. It is particularly important for women on welfare, who will be very dependent on their business for household income, to assess the feasibility of their business idea carefully. Research shows that entrepreneurs who do business with a narrow, low-income population become ghettoized and limit their growth and profitability (Aldrich et al. 1985). Business stabilization and growth are more likely when the entrepreneur reaches a broader market. Microenterprise programs must help entrepreneurs establish firms geared to emerging markets.

❒ Help Qualified Entrepreneurs Secure Larger Loans

Complaints of undercapitalization and the fact that emerging, more profitable business sectors require greater capitalization merit recognition from program organizers and policymakers concerned with making self-employment more accessible to disenfranchised groups. Larger loans must be available to those who have the expertise to use them to build strong businesses. The model developed at Working Capital's Lawrence, Massachusetts, project may work for other programs. The microenterprise strategy is most successful in places where it has been embraced as part of a more comprehensive economic development plan to encourage business development. Specific examples of regions that have done this are provided in Chapter 3.

CONCLUSION

The microenterprise strategy can play a critical niche role in the larger economic development plan for distressed regions. There is ample room at all levels for government to do important work that would help maximize the microenterprise strategy's potential effectiveness. These areas of involvement include funding, coordinating policy, educating key players in the economic development process, and brokering relationships. As discussed, there is great opportunity for EDA to play a leadership role in these areas.

5

Institute for Social and Economic Development (ISED)

INTRODUCTION

The Institute for Social and Economic Development (ISED), with headquarters in Iowa City, provides entrepreneurial training throughout the state of Iowa. Regional offices are located in Cedar Rapids, Davenport, Des Moines, Sioux City, and Waterloo (Figure 5.1). While each of these cities suffers its own particular form of economic distress, general macroeconomic trends throughout the state have played a significant role in all of these locations.

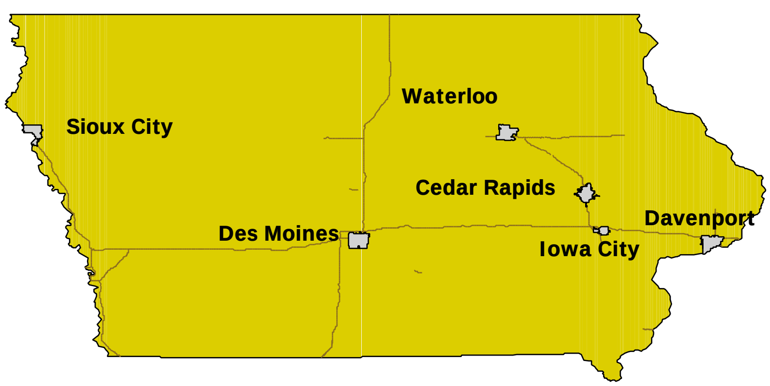

Figure 5.1 ISED branch offices
Note: ISED is headquartered in Iowa City.

DEMOGRAPHIC AND ECONOMIC BACKGROUND

The Iowa economy is dominated by agriculture and related industries. In 1992, 88 percent of all land within the state was farmland. The Farm Crisis of the early 1980s (or depression, as one local banker called it) devastated the statewide economy. More importantly, the crisis had a significant impact on family-owned farms. Between 1982 and 1992, the total farmland across the state only declined from 91 to 88 percent, yet the number of individual or family farms decreased from 97,610 to 81,127 — a drop of 17 percent. During the 1980s, the rural farm population decreased from 391,070 to 256,562, a 35 percent decline.

While a greater number of people are employed in manufacturing than agriculture, most of that manufacturing employment is in agriculture-related industries. John Deere, for example, is one of the larger employers in the state. Similarly, the retail component of the economy is directly tied to the rise and fall of the agricultural sector.

An examination of unemployment trends in Iowa reveals a rough correlation to U.S. national trends (see Figure 5.2). The early 1980s, when Iowa's unemployment rate topped the national averages, was the height of the Farm Crisis. However, Iowa has been able to stage a moderate recovery, and was not as acutely impacted by the 1990–1991 recession as the rest of the nation.

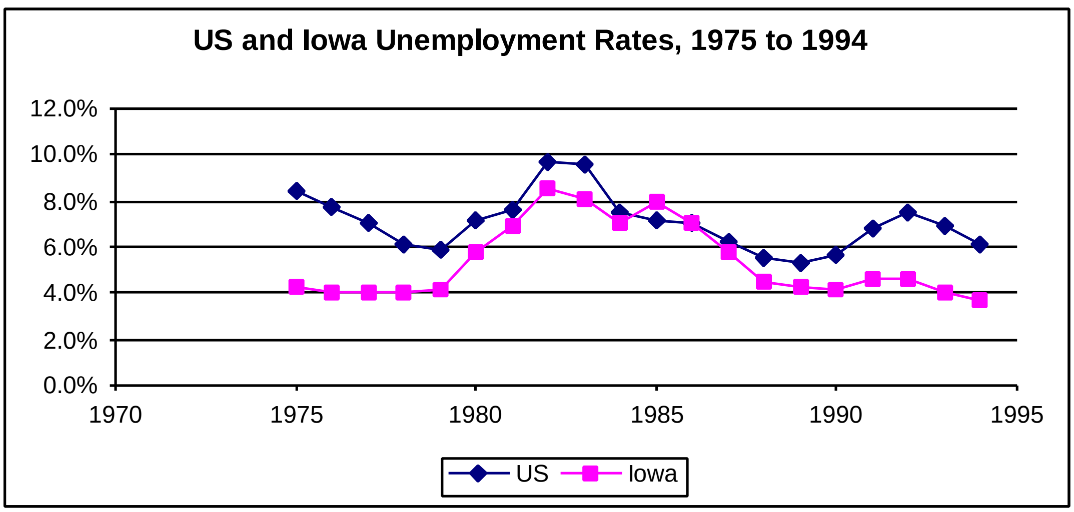

Figure 5.2 U.S. and Iowa unemployment rates, 1975 to 1994

DESCRIPTION OF CASE PROGRAM

History, Mission, and Philosophy

ISED is comprised of two distinct components. The Research and Evaluation Division performs program evaluation and policy analysis. Many of its current projects focus on the effects and impacts of welfare reform. This activity complements the work of the Economic Development Division, which is charged with providing microenterprise development services. This study looked exclusively at the Economic Development Division.

According to ISED's 1996 Annual Report, the mission of its Economic Development Division is "to help low-income, unemployed, or underemployed individuals start businesses to become economically self-sufficient and enter the mainstream economy. ISED also targets distressed urban and rural areas seeking to revitalize commercial areas and create new businesses and jobs."

John Else, founder and president of ISED, sees microenterprise as an economic development, human development, and community development strategy. "We started it because we wanted self-employment as an option for people to get themselves out of poverty."

Jason Friedman, vice-president and director of the Economic Development Division of ISED, adds a different slant. He feels that "[ISED is] here to fill a gap. The gap is that in the broad range of what you would call economic development, people who are in the bottom end of the economic spectrum don't have the resources to start small businesses."

Methodology

Application and Screening Process

ISED has a three-pronged recruitment strategy, which is oriented toward attracting public assistance recipients and other economically and socially disadvantaged populations:

- Targeted mailing to welfare recipients: through its contract with the Iowa DHS, ISED direct mails twice a year a flyer to nearly 20,000 families receiving assistance through the Family Investment Plan (FIP). The flyer describes ISED's services and lists an 800 number to call in. The mailing typically generates about 500 calls each time.
- Neighborhood outreach; ISED distributes flyers to community-based organizations, churches, neighborhood associations, local businesses, and the like to advertise upcoming classes.
- Orientation sessions: staff also conduct 90-minute orientation sessions in public libraries, community centers, and other public venues, in advance of the 13-week class.

When a potential client contacts ISED — either through his/her own initiative or referral by another service agency — program staff determine whether ISED is the most appropriate service provider. According to program staff, initial client queries are often referred to a small business development center or a similar "help desk" in cases where the client has just a few specific questions. Jason Friedman noted, "People who walk in here and say, 'I'm starting this business, tell me how to do my taxes,' we'll refer them to an organization that can give them those quick answers."

Beyond that point, an initial screening at ISED is based on income. ISED defines low income as a family earning 185% of the federal poverty line and will serve only clients that meet this criterion. Some of ISED's grants and demonstration projects are targeted at lower-income subsets of this population: participants of one particular program must be below the actual federal poverty line, and another serves only welfare recipients.

Once clients pass the income screen, they begin one of ISED's 13-week courses. The first three weeks of the classroom curriculum consist of a number of self-evaluation exercises that focus on self-esteem and self-confidence issues. The first session is mostly an orientation, where clients learn about the program and meet with the instructors. In the next week, personal money management, time management, and other self-assessment tasks are covered. At this point, the client begins to research his/her business idea. In the third week, the feasibility of the business is discussed, as well as the time commitments necessary to pursue it.

After three weeks, the client must decide whether or not to enroll. If an individual concludes that self-employment is not for them, or that ISED is not the best program for their needs, they may choose to leave. Before enrollment, each client meets one-on-one with the trainer. After enrollment, clients are expected to make a significant effort in the class and toward their potential business.

The ISED staff is quick to point out that the client makes the determination of enrollment, not the trainers. In speaking with trainers, this appeared to be generally true. One trainer, however, noted that "significant encouragement" is given to help the client reach that decision, and that the opinion of trainers, given their experience, was an integral part of the process. Essentially, trainers try to help potential clients reach the decision that is right for them, given the point they are at in their lives. The first three weeks, and one-on-one consultations, are geared toward helping clients determine their own business readiness.

Target Population

All of the program staff interviewed were quick to note that there was no such thing as a "typical" client. John Else categorizes ISED's service population into four broad groups:

1. Those that have recently come on public assistance, be it [due to] a divorce or other significant life event. They'll see a flier about the program, and they grab the opportunity, and we're a resource for them.
2. Those who have been on public assistance for a long time. Across the state about 11 percent of Family Investment Program (FIP) recipients have been on for over two years. When we did our pilot, 66 percent of our clients had been on that long, which is one definition of long-term. They're older, and the idea of working for someone else doesn't appeal to them. They have work experience, and have a reasonable idea as to what they want to create, and have a stronger work ethic.
3. Non-welfare recipients. The working poor or dislocated worker. A higher percentage [of these] are men, who need to create some kind of job for themselves.
4. People who most people think don't have much to give. They're not employed, and couldn't think that they could ever be employed. For them,

> there's a certain hope in being self-employed. They don't fit any kind of categories.

Jason Friedman notes that ISED started out serving welfare clients. Although the program has broadened its definition of low income (185% of the federal poverty line), staff continue to see their mission as one to serve all kinds of low-income individuals, including disabled persons and refugee populations; to this day, one-third of ISED's clients are FIP recipients. Many of the program's clients are women; over the past five years, slightly over 60 percent of clients were women.

Lending

ISED, unlike many microenterprise programs, does not make loans directly. It is strictly a training-led organization. John Else, while recognizing the strength of program components such as peer lending, remarked that ISED's history and funding made such programs impossible. "We started with public funds with welfare recipients, with one-year waivers. That put the pressure on us that those folks had to be self-sufficient in a year. That means that they couldn't learn by doing [as in peer-lending groups]."

Else also noted that business starts were never ISED's only goal. As a result, a "client" was not defined narrowly as an individual who got a loan. "If someone decides after going through all this that they are not going to start a business, then that in one way is a success."

However, ISED does a significant amount of work with its clients in helping them secure credit. Jason Friedman notes the connections that ISED staff have made with local lenders, as well as with State loan programs, as crucial elements of their success.

Jim Mollenhour is a vice president with Farmer's State Bank and has worked with ISED clients in the Cedar Rapids area. He describes a good relationship with ISED:

> [If they met our lending criteria] I would meet with the client, and the ISED representative, and we would talk about their goals. What I liked about ISED is that they would have worked with them already, and there would be a business plan put together. So many people come in and see us, and they don't have the background and experience to know whether or not their idea will be a viable business.

The experience of going through the ISED program, therefore, provides clients with access to credit that they would not otherwise be able to obtain.

Another major resource available to ISED clients is the Iowa Self-Employment Loan Program (SELP). Started in 1987, SELP was originally designed to help participants in the Job Training Partnership Act (JTPA) program. It was later expanded to include participants in other self-employment programs, including ISED. This program serves individuals at or below 125% of the poverty line. The former manager of this program, Burt Powley, notes that "for the past ten years, the State of Iowa has put considerable resources into self-employment."

Powley further noted that Iowa was progressive in promoting self-employment out of necessity, as much as out of choice. "For many, self-employment was the only option for people during the depression that followed the Farm Crisis. There weren't any jobs."

One requirement of the SELP program is that each prospective borrower must have a local sponsor, which could be a Small Business Development Center (SBDC) or a contracted agency like ISED. As a result of this stipulation, Powley noted that the loan loss for SELP has been between 30 and 35 percent. "When the State started this program, we thought it would be 70 percent."

ISED, then, plays a key role in helping its clients access credit from both public and private sources. Table 5.1 illustrates the amount of capital that ISED has helped its clients access over the past five years. The majority of loans have been from commercial banks, which have provided more than half of the capital obtained.

TABLE 5.1

Capital Accessed by ISED Clients, 1993-1997

Loan Type	*Average Number Made Annually*	*Average Annual Total*
Commercial	25	$543,725.40
SELP	14	$111,860.00
Private	7	$110,403.40
Grants	6	$ 49,200.00
Other	2	$ 47,260.00
Unknown	3	$ 38,600.00

Source: Data provided by program.

Relationships with Other Organizations and Institutions

The two primary agencies responsible for small business development in the state of Iowa are ISED and the Small Business Development Centers (SBDCs). Historically, ISED has focused on low-income (including welfare) clients in the more urban regions of the state, while the SBDCs have served a broader range of small businesses throughout the state, including rural areas.

When Jason Friedman joined ISED in 1994, he saw (and continues to see) the need for ISED to act more like traditional community development corporations, providing service not just to isolated individuals but gearing that service to the needs of communities. As ISED began to pursue this strategy through its rural microenterprise program, however, it found itself serving clients and regions that were traditionally the bailiwick of the SBDCs. In the process, ISED inadvertently stepped on a few toes.

John Else notes that "whenever a new agency starts offering services that had been offered by an existing agency, and the more that constituencies start to overlap, the more threatening it becomes." ISED, with its work in rural microenterprise, had begun to do just that.

As a result, Else and Friedman met with senior staff of the Iowa SBDC and hammered out a cooperative agreement between the two organizations regarding state funding from DED. "It was a watershed moment," recalls Friedman. "We both affirmed that we target different markets, but that there was opportunity to work together." In fact, the SBDC now supports ISED's Rural Microenterprise Program, even though the program does not target low-income individuals. "SBDCs want to target businesses with more sophisticated needs. We knew that wasn't our focus. So we work together and refer clients to each other," Friedman said.

Another relationship ISED has recently fostered is between ISED and three utility companies: MidAmerican Energy Company; IES Utilities, Inc.; and Interstate Power. According to Stephen Dust, director of Economic Development for MidAmerican, "We identified that ISED could help us with our small-business start-up interests in rural and urban areas in our electric service territory." As a result, MidAmerican paid half of the local match for entrepreneurial training in ten communities last year.

Changes in Mission and Methodology Since Inception

John Else does not think that the mission of ISED has changed much in its ten years, noting that, "Our focus is on empowering low-income people. It has been from the SEID pilot to our current programs." Although ISED has maintained this focus on low-income individuals, it has also expanded its mission to serve distressed areas. The rural microenterprise program that ISED runs motivated this expansion.

Funding

City Funding

ISED receives some limited support from cities in its service region. In 1998, it was funded in both Iowa City and Sioux City with community development block grants (CDBGs) to work with low- to moderate-income residents and to provide entrepreneurial training. ISED plans to expand such programs in the future, and is seeking other local partners.

State Funding

The State of Iowa was involved with the first Self-Employment Investment Demonstration (SEID) program in the late 1980s. This program was designed to examine the possibility of self-employment as an option for welfare recipients. The State contracted with ISED to provide entrepreneurial training for this demonstration. In fact, this was ISED's first contract. As described in detail above, a significant State resource is the Self-Employment Loan Program (SELP).

In the mid-1990s, the Iowa Department of Economic Development (DED) became more deeply involved with microenterprise. Attached to a larger appropriation for value-added agriculture was $50,000 for a pilot project for rural microenterprise.

Despite some debate about funding, DED decided to continue funding the program because the economic development officials in the counties served by the program supported it and told DED that it provided a valuable service. However, DED stipulated that ISED and SBDC would have to develop a Cooperative Agreement, the outcome of which was the acknowledgment that ISED serves both disenfranchised people *and* distressed areas.

According to the director of the DED, David Lyons, the State's economic development strategy:

> moved from a "give a person a fish" type of economic development to a "teach a person to fish" kind of economic development. . . . If we could teach an individual the skills of business development and entrepreneurship, we would in essence be making a good economic choice, because we would be funding them once, at a low level of funds, and give them the skills so that we wouldn't have to fund them at a high level later, either as a welfare reform case, or as a failed business that we would have to help pick up the costs of.
>
> So what we did was, we built tool sets that would reach earlier and earlier in the development process of communities and individuals. . . . So we have more tools than a state of our size and population would have, but then again, those tools are aligned across the entire continuum of service needs for a community to thrive and an individual to thrive. Depending on our economic times, the funds shift up or down and are allocated where they are needed from our strategic fund.

In addition to DED, the Iowa Department of Human Services (DHS) also provides entrepreneurial training as part of its FIP welfare-to-work program. DHS has contracted with ISED to provide this training. According to Deb Bingaman, contract manager for the Division of Economic Assistance, ISED has been involved with DHS since the SEID program ended in 1988.

Bingaman is quick to point out that entrepreneurial training is a very small part of the employment training programs offered to FIP clients. This year, there is a cap of 160 clients — out of a total caseload of 26,000 people — who can choose entrepreneurial training. She notes that there is a sense that individuals who start their own business may not become self-sufficient fast enough, and given the new five-year lifetime cap on cash benefits in the State's welfare program, this may not be the best option for most FIP clients. Still, ISED is serving a niche group of welfare-dependent Iowans and helping them to become self-sufficient through self-employment.

Federal Funding

ISED receives the majority of its funding (more than 60 percent) from federal sources. The largest single source is the Department of Health and Human Services Job Opportunities for Low-Income (JOLI) program, under which ISED has a $500,000 grant to create low-income jobs through microenterprise. This grant is for a three-year period.

The next-largest grantor is the U.S. Department of Labor, Employment and Training Administration. Under the JTPA Microenterprise Demonstration Program, ISED is contracted for training for low-income displaced workers. This program is administered through a state agency called Iowa Workforce Development.

The third federal grant is from the Small Business Administration to help low-income women and minorities who are seeking commercial financing. This grant for $125,000 is for ISED to help such individuals apply for SBA-backed loans offered through commercial banks.

Table 5.2 summarizes the ISED budget for 1998. As described above, ISED has connections to local, state, and federal funding sources. The program's 1998 budget is $1.2 million and is almost entirely comprised of public money. In terms of private foundation support, the Chrysalis Foundation in Des Moines has given ISED a $7,000 grant to work with low-income working women. The other major private supporter is the Mott Foundation, which recently awarded ISED a $300,000 grant over three years for "innovative welfare to work projects." The rest of its funding is primarily from public sources. This funding has been typical throughout ISED's history; as noted elsewhere, the organization has its roots in serving welfare clients in their transition to self-sufficiency, and its first contract was from the State of Iowa.

TABLE 5.2

1998 ISED Budget

Source	*Targeted Clients*	*Amount*
FEDERAL		
U.S. HHS: JOLI	100% or less of federal poverty level	$500,000 (3 years)
U.S. SBA: JTPA Microenterprise Demonstration	Low-income, dislocated workers	$250,000
STATE		
Iowa DED: Rural Microenterprise Program	Small rural towns	$75,000
Comprehensive Management Assistance	125% and below poverty line, needing assistance applying for SELP loans	$15,000
LOCAL		
Iowa City CDBG	Low and moderate income	$20,000
Sioux City CDBG	Low and moderate income	$75,000
FOUNDATIONS		
Chrysalis Foundation	Low-income working women in Des Moines	$7,000
C.S. Mott Foundation	Welfare-to-work project	$300,000 (3 years)

Source: Program data.

Outputs

Number of People Trained

In the five-year period from 1993 to 1997, ISED recorded 6,604 initial contact forms on file. These initial contacts either are referred by another agency, read a newspaper ad, or hear about ISED by word of mouth. After the initial contact by the individual, an ISED staff member or contracted trainer conducts an interview with the prospective client in order to determine whether or not the program is appropriate for that individual. Of these 6,604 contacts, 3,666 enrolled.

When asked about this 45 percent drop in potential clients, ISED staff noted that a fair number of initial contacts are immediately referred to another, more appropriate agency. Individuals who possess significant business skills and contact ISED with a specific question are often referred to a local SBDC, for example.

Of the 3,666 people enrolled in training programs during this five-year period, 1,903 completed training. This figure represents slightly more than half of all enrolled individuals, and just under 30 percent of all those who contacted the agency. ISED staff noted that clients do not complete the training for many reasons, including changes in their personal lives, decisions to take other waged employment, or a decision that self-employment is simply not for them. According to trainer Mel Essex, it is better that someone who may not be cut out for starting a business learn that through the training, and not by failing in the business.

Number of Hours Spent on One-on-One Technical Assistance

ISED conducts both individual and classroom training. The classroom program meets weekly for a three-hour session over the course of 13 weeks—a total of about 39 hours. Individual training is roughly comparable in terms of time spent but varies according to the needs of the individual client.

Outcomes

Businesses Started, Stabilized, or Expanded

During the five-year study period, 549 clients were recorded as having started businesses, which corresponded to 511 business openings. The number of clients is greater than the number of businesses because sometimes two or more people — often family members — take the class and start a business together. Of those businesses, women owned 66 percent and minorities owned 16 percent. Welfare recipients started 42 percent of these businesses.

During the same period, ISED recorded 96 stabilizations, 72 percent of which were in women-owned enterprises. Additionally, 147 expansions were recorded, with roughly 60 percent in women-owned firms.

Job Creation

Table 5.3 below shows employment levels of the businesses served during 1997, before and after ISED intervention. These data are based on 139 start-up businesses, 38 business expansions, and 69 business stabilizations during 1997.

TABLE 5.3

Business Employment Levels

	Before Opening or Intervention		*After Opening or Intervention*		*Net Change*	
	Employees	# in Family	Employees	# in Family	Employees	# in Family
Full-time Employees	37	15	87	25	50	10
Part-time Employees	23	11	66	27	43	16
Seasonal Employees	1	1	2	3	1	2

Source: Program data.

While this is not an exact measure of job creation potential, it does show the positive benefits from program participation. ISED training led to 94 new jobs in these 246 businesses – in both new and existing firms. Since only 28 of these jobs were assumed by family members, this job creation success suggests a positive benefit to the local economy.

Types of Businesses Started

More than half of the businesses started were in the service sector, with an additional one-third in retail. Over the five-year period, 60 percent of the businesses were home-based. ISED did not provide a more detailed (i.e., SIC grouping) division of the types of businesses started. The clients interviewed for this study worked in the following sectors: restaurant, small manufacturing, beauty salon, child care, woodworking, retail. Below is a listing of the business types served by ISED in 1997.

ISED 1997 Businesses

Accounting & Bookkeeping
Animal / Pet Services
Antiques
Arts and Crafts
Automotive Repair/Body Shop/Welding
Auto Merchandise and Parts
Automated Time & Payroll Service
Bakery
Beauty Shop
Bike Sales & Repair
Books
Breast Feeding consultant
Business Brokerage
Catering
Child Care
Chiropractor
Cleaning
Clock Repair/Sales
Clothing Sales & Alterations
Computer Sales & Repair/Electronics
Consignment Shops
Construction / Home Improvement
Desktop Publishing
D.J. Service
Fire Extinguisher Business
Fishing Supplies
Fitness / Training
Flowers / Gift Shops
Food & Beverages
Furniture Manufacturing
Literature
Green House
Grocery / Errand Service
Household Accessories
House Inspection
Internet Service & Sales
Landscaping / Lawn Care
Language / Translation Services
Locksmith
Marketing
Massage Therapy
Mediation
Nature Sound Recordings
Office Supplies
Party / Event Planning/Supplies
Pawn Shop
Photography & Framing
Piano Service
Prize Packages
Redemption Center
Research Services
Restaurant/Lounge
Safety & Health
Sign Making
Sports Equipment
Tack & Leather
Telescope/Lenses
Telephone Services
Tile Making
Travel Agencies
Trucking
Video Rental and Gifts
Watkins Distributorship
Weight Loss
Windows & Doors Retail
Window Wash
Woodworking - Products/Finishing

Findings from the Client Side

Typical Client / Range of Clients Served

Most of the program staff at ISED stated that there was no such thing as a typical client. Through our interviews, that claim was more or less confirmed. We interviewed single mothers trying to attain self-sufficiency for themselves and their children, as well as career professionals who wanted to work for themselves. The clients we spoke with had varying levels of resources, from no capital to significant personal savings, from no family assistance to access to large, family-run establishments.

As mentioned above, ISED clients must fall below 185 percent of the federal poverty line—the program's definition of low income. Of all enrolled clients, fully one-half had monthly gross incomes below $1,164, the federal poverty threshold at the time of enrollment (Census 1996).

The majority of ISED clients (60 percent) come from homes with four or fewer dependents. Only 10 percent of clients are in single-person households. Seventy percent of ISED's enrolled clients are white in a state that is 96 percent white. ISED has done some work with South Asian immigrants, on grants from the Office of Refugee Resettlement. ISED has done fairly well in reaching minority populations and refugees. One of the clients interviewed for this project was an immigrant from Vietnam who recently opened a restaurant with his brother.

Definitions of Success / Client Goals

Due to ISED's focus on serving welfare clients, the vast majority of those interviewed expressed that simply "getting by" was a top priority. Many business owners were not yet realizing any income from their businesses, like this woman who owns a clothing store:

> In one year I'd like to be able to take an owner's draw. I probably could now but I'd like to build it up. I'd like to hire someone so I could be here three days a week and be home writing the rest of the time. I thought I'd have more time to write by opening this business, but that hasn't happened.

While many of the business owners were struggling with their businesses, most were optimistic that they would be able to support themselves and their families at some point in the future. As the owner of a consignment shop in a rural community noted:

> I never thought that it would take so much money to get things off the ground. I love the store, and even though it's only been open a couple of months, I see a future where me and my daughter could draw enough income from the business itself, without having to work the other jobs.

All those interviewed expressed similar sentiments about the amount of "hard work" it would take for them to succeed at their businesses. This woman, who runs a weight-loss center, perhaps said it best:

> I feel that it's not going to come to you. You have to go and get it. It's like I tell my sales staff: the sky's the limit, you have to make a go at it. You have to love what you do. Business is not just opening the doors. You have a lot of hours of hard work that you won't be able to do it if you don't love it. Opening your own business is wonderful and scary. If you're determined, you can do it.

Some of those interviewed (e.g., an engineer, two nurses, a child-care worker) had previously worked as professionals. Their goals were not simply self-sufficiency. Rather, they hoped to regain a certain level of income and standard of living. One nurse noted:

> Everyone says, well, open your doors and you're a success. You can look at this office, this professional-looking office, and you can say, oh, these people are successful, but I will not think that I am successful until I reach job replacement income. No, that's not really my definition of success. My definition of success is not being on the welfare roles, and not depending on anyone else. As long as I have something to think with, and extremities to move around with, there is no reason…there are always $6.00/hr. jobs out there, whether it's flipping hamburgers. That would be an awful comedown from being a professional making $45,000 a year, but my feeling is that there are always things to do.

Reasons for Pursuing Self-employment

Most of the ISED clients interviewed saw self-employment as the only option left for them. Most, if not all, of the clients we spoke with had some experience with waged employment. And almost all of them had decided that self-employment was preferable for them at this point in their lives. While most stated that they *could* find another job if their business failed, that would be the least-preferable option, for a variety of reasons.

> I can't see anything positive that would have happened if I hadn't done this. It would have cost me my home, I'm sure of that. I had nothing to lose, literally. That's really where we were at. . . I felt like self-employment was really my only option. If I could have gotten another job that paid well, I would have taken it.

The nurse mentioned above was injured on the job and faced a hostile environment when she returned to work:

> It was a matter of survival. My partner and I, we both worked at the VA in Iowa City. We were both injured on the job a year apart. Once we got

> injured, we were dumped. As soon as that happened, as soon as it was known that we were a liability, we couldn't find a job anywhere in the area. Even though we were both registered nurses, even though we both brought a combined 30 or 40 years of nursing experience, it didn't matter to the general population…. I don't know if we would have ever done this, had circumstances not forced us into this.

Many of the clients we interviewed cited child care as a prime factor in their decision to start home-based businesses. This woman was interviewed before her business opened, while she was taking classes with ISED. When asked why she would prefer to be self-employed, she said:

> Basically not having to take orders from people that I consider to be low-life idiot scum. They hire people part-time or temporary and they don't want to pay benefits, but they want you to be around to clean up their messes. Being self-employed would allow me to keep my son with me while I worked. He could be at the store with me.

This machinist opened a shop at his house, so he could take care of his two small children:

> I was working at a machine shop for about five years doing the same kind of work in town, but my boss never kept his promises, He was always saying I'd get a raise or a vacation and after five years that never happened, so we kind of parted ways. I went on unemployment and when that ran out I went on welfare. I had two kids who were two and three years old. My wife had run out on me. And then I heard about ISED.

Like this client, others of those interviewed had also had frustrating experiences with waged work and liked the idea of self-employment. One example was this client who recently opened his own shop:

> The guy I worked for, he didn't know what to order. He saw that I knew what was going on, and he'd let me tell him what to order. Later, it got to the point where I'd be placing the orders. I was dealing directly with the vendors, and making good money in my section of the store, but it really wasn't my money. Then, when I wanted to take on more, he wouldn't let me, even though my one-eighth of the store was making as much money as the rest of the place all together. So I thought that I could do a better job for myself.

For others, opening a business was something that they had always wanted to do, but it took a life-altering experience to push them into self-employment. This woman, who worked for her father-in-law, needed to find other work after her divorce:

> I was an unemployed mother of three, and didn't know what to do. This was the kind of business I always wanted to do. Needless to say, the divorce was

> very stressful, and that's when my father-in-law let me go. I wanted to get back into the business. This is basically my baby. I love working with women, I love helping people, I like the idea of a natural food program with exercise on-site, and that's exactly what I was looking for. Cedar Rapids didn't have anything like that.

This educator had noticed a need for dinosaur-related projects while she was teaching. She had always wanted her own business, and with this idea, she decided to open a store:

> When I was doing my student teaching, and we were doing the dinosaur unit, there was nothing available for the teachers, or myself, or the kids, so they could look at the dinosaurs and study them. So I started thinking in the back of my head, back in 1989, that I've always wanted a store. And I saw that this would be a great resource. And so when I graduated with my master's in '97, I started on it. . . . I've always had the desire to have my own store. I didn't always know what it would be. I thought maybe crafts or something for kids, something geared for children, because I love kids. I wanted someplace where kids could come over and have fun. I've always had the desire.

Advantages/Drawbacks of Self-employment vs. Mainstream Work

As mentioned earlier, child care was one of the most commonly cited advantages to self-employment — particularly in home-based businesses — cited by the ISED clients interviewed. Many single parents who want to be home with their children see self-employment as the only solution. One single father said:

> I like the flexible hours. I'm raising two kids on my own and I've been doing it for ten years. I can take care of them this way, be here in the morning and when they get home from school. That's why it helps to have it at home like this. If they're sick, I don't have to miss a day of work. The shop is right here on the premises.

Another parent notes the flexibility of her home-based bookkeeping business, and how that lets her participate in her children's lives:

> I definitely like working for myself. It's more flexible, so like with this broken hand I haven't had to take time off. I'm home for my son before and after school, and if he has games he's playing in after school I can go and watch for an hour and make it up at night or on the weekend.

Others cited flexibility of schedule as well. This woman operates a retail clothing store, and cites not only the ability to make her own hours, but the fact that she can help out those in need:

> I like my own ideas. I've always been creative and I enjoy making the store look the way I want it to look. I also like the flexibility, that I can make my own hours. And I like the people, meeting all the people that come in. But I think I give away too much…. If someone comes in and they want something and they don't have the money, it's hard. I may give it to them, because I've been there, and I believe every kid has a right to decent clothes…. I just feel so sorry for them, and so I try to help.

Control of the environment where they work was mentioned by more than one client interviewed. After working for many years in a VA hospital, this nurse likes being able to set her own high-quality standards:

> I like the autonomy of it. I like to dictate the policies and procedure, and how we are going to run our business. That is more important to my partner and me, that we maintain professionalism, and we maintain control of what the policy is.

Many clients, however, also note the uncertainties of being in their own business, as compared to having a waged job. The educator mentioned above says:

> I guess that on a daily basis as a teacher I knew that I was getting another paycheck in two weeks. I know that I'm going to get a paycheck with the business, but it's more on my mind, like, "How much did I make today." When I was teaching, I would just teach, and I would think about how much income the school was generating. I just knew that I was going to get a check.

Relationship with Microenterprise Program

What is striking about ISED is the strong relationship that develops between clients and individual trainers. In most of the interviews conducted, the client identifies most closely with the individual who worked with him or her, and not necessarily with ISED as an organization.

> I learned how to do a business plan, and it helped me to get the financing to expand to this location. And [my trainer] gave me encouragement, a lot of encouragement. She's just a wonderful person. She's very professional and dresses very well, and carries this nice leather purse, so I was worried when she first came to see my store at the old location. But she was just a real person, not pretentious. And she's turned into a personal friend.

Part of the type of relationship has to do with the way in which the client comes in contact with the agency. Several of those interviewed recalled that a loan officer at a bank had told them to contact a particular trainer at ISED who could help them obtain other kinds of funding. This is evidence of the successful networks that trainers have developed with local banks.

Another factor is the nature of entrepreneurial training itself, especially the personal contact that ISED's trainers make. One client, when asked about the assistance she received from ISED, remarked:

> Oh, [ISED trainer] was such a help. She gave me so much information. She got me to think about the questions I didn't know to ask, or even think to ask. She would call, maybe once a week, just to follow up, you know, "How are things going," and she'd always be supportive and give a compliment.

Rather than speak of assistance from the agency, this client thought first of the trainer. Such a response was not uncommon.

An obvious concern with this kind of relationship is the reliance of the agency on a small number of highly skilled trainers. When such individuals are no longer with the agency, the trust established with the trainer may not readily transfer to another staff member. In certain interviews, clients who had been on their own for a while were disappointed to hear that one trainer had left the organization.

When asked about this issue, one trainer likened it to being saved from a sinking ship. "Sure," she said, "you know it's the Coast Guard who is driving the boat, but you're really thinking about the guy at the other end of the rope." Jason Friedman notes that those relationships are characteristic of microenterprise programs in general where the trainers spend a lot a time with individual clients. This was illustrated in the comments of the educator mentioned above.

> I got my business plan together, and started working with [my trainer]. She pulled a lot of my loose ends together with the business plan, marketing, financing, and networking with other people in the community. I guess it was something I was supposed to do, because everything just came together…The people I met there really believed in me. They believed in my ability to run a business, and they just believed in me. They were the first people that I spoke to that believed that I could run the business. ISED was very personal, you know. They asked me, "Tell us about yourself." I had to verify who I was, and they helped me out tremendously. [My trainer] was very personal, and that was what I needed.

ISED also seems to have significant success in guiding clients with few resources. Those that spoke most highly of ISED were those who had no previous business training and very little in terms of resources. One such client was a woman in a rural town who started her own home-based business. She had worked at her trade for many years but needed to be at home to take care of her ailing mother. She had very little capital and no previous business training. ISED was able to provide her with the necessary training and help her apply for SELP funds, enabling her to get her business started. Currently, her business is doing well and providing necessary income for her mother and her.

Another client, a nurse, put it this way:

> We were nurses, not marketers. We didn't have the foggiest idea of how to go out and sell your business to people. And that's where [my trainer] came

> in. She said, "Okay, where's your business plan?" And I said, business plan, what's a business plan. We had applied to the SBDC for assistance, but they just blew us off. And then ISED came in. She showed us how to write a business plan, how to target our area. She just took us by the hand and helped us do it.

Another woman, who had no previous exposure to business, took the class and said:

> I didn't know anything about business. No one in my family has any business background. And it was free, so it seemed unintelligent not to go and take whatever information I could get out of it. I just really wanted desperately to get out of the job I was doing. I wanted something else to do for a long time. And this just gave me enough experience to get started.

We also interviewed several clients with professional backgrounds and significant personal resources who found ISED to be a good asset, but not indispensable. We interviewed an electrical engineer whose former employer paid for his MBA. After he was laid off, he wanted to start his own business. He wrote his own business plan and was able to secure some financing. He came to ISED when he needed additional operating capital, and he wanted to take part in the SELP program.

Clients also mentioned the encouragement and support they received from ISED staff. "I gained a ton of knowledge from the class. I was lacking some self-confidence, and they really helped me realize that I could do this," notes an owner of a consignment shop.

One concern expressed by a few clients was that their trainer was not knowledgeable enough about their particular business. The nurse, who opened a drug-testing business, didn't attend the classes. "We never went to any of those training classes, because we were really a kind of unique operation." Another client in a specialty shop said:

> The thing that's a bit frustrating is that they're not too up to speed with this kind of stuff. They aren't young enough. I'm telling them about this, and they'll say, well, can't you get this at Wal-Mart. They don't have a feel for it, it's kind of frustrating that no one knows. It's basically retail, but it's kind of different. I tried to educate them on it, but it didn't really help.

What Makes ISED Unique

When asked about what makes this program unique, Director of Economic Development Jason Friedman noted four factors, which were in evidence throughout our fieldwork:

1. *The historic focus on serving welfare clients*, and the continued attention to low-income families.
2. *The lack of a loan fund*: "We use existing mechanisms and develop networks with bankers. To meet a need, ISED developed a loan guarantee fund—designed to back

50 percent of a loan, up to $10,000—so that clients may obtain commercial credit. And the fact is that the State of Iowa has a public policy commitment to serving low-income entrepreneurs with a Self-Employment Loan Program."

3. *Follow-up with clients*: "We have high survival rates because we are dedicated to tracking our businesses and providing follow-up assistance."
4. *Holistic approach*: "We focus on business planning but are always aware of the whole person. We help out with other barriers in people's lives — not by directly providing those services, but through our networks with other agencies in the state."

Although the last two points tend to characterize many microenterprise programs, ISED has made its mark in specifically serving the welfare community. As a result of its historic focus on the low-income client, ISED has been able not only to refine training for this population, but to establish and develop significant networks with other social service agencies that serve the welfare population. These connections have strengthened the service that ISED can provide its clients.

Program Challenges/New Directions

ISED faces two related challenges for the future. First is the evolution of its relationship with the state's Small Business Development Centers (SBDCs). As both work together with the state Department of Economic Development to serve rural populations, the details of their arrangement need to be refined and improved. The ISED staff interviewed agreed that this particular relationship needs attention. More generally, relationships with other service providers in the state need to be further developed.

Jason Friedman identified a second area that ISED is working on: developing community networks for self-employed individuals.

> Self-employed people will get nowhere unless they get involved with the networks in their communities that you and I take for granted. Create those support groups so that people who go through our training program have access to a network of people, which will become mentors that will open doors for them. That creates the potential for more jobs, more income . . . that's where we're taking the program.

He further notes that microenterprise programs need to think more about community economic development and not just serving individual clients. Instead of helping everyone who "walks in the door and meets the income requirement," he feels that ISED needs to target the specific needs of particular communities.

To achieve this new goal of "acting more like a CDC" (as Friedman put it), ISED will inevitably run into the domain of other service providers. Before such interactions become conflicts, as was the case with the SBDCs, ISED needs to develop mechanisms to manage and direct such relationships.

6

Northeast Entrepreneur Fund (NEF)

INTRODUCTION

The Northeast Entrepreneur Fund (NEF) serves the mostly rural distressed region of northeastern Minnesota (Figure 6.1). The region historically has been economically dependent upon the "Three Ts"—taconite, timber, and tourism. NEF seeks to promote self-employment in an area long dominated by companies whose owners tend to live elsewhere.

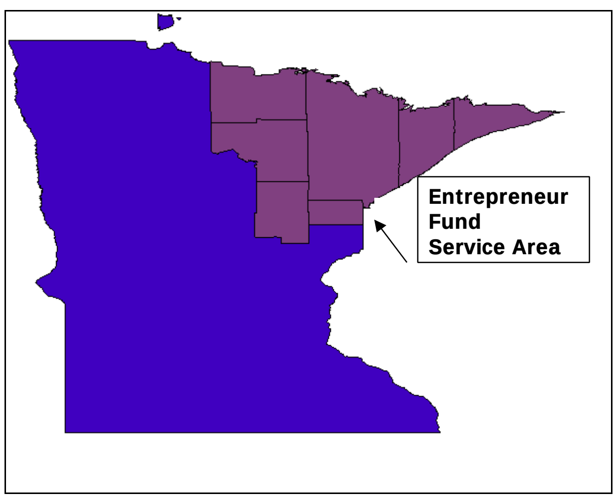

Figure 6.1 Minnesota Region served by Northeast Entrepreneur Fund

DEMOGRAPHIC AND ECONOMIC BACKGROUND

The northeastern region of Minnesota includes seven counties: Atkin, Carlton, Cook, Itasca, Koochiching, Lake, and St. Louis. The Minnesota Office of Planning has designated this region the Arrowhead Development Region.

Since the late nineteenth century, the region's economy has been dependent on the mining of iron ore, initially high-grade ore and since the 1950s low-grade taconite (Reid 1984). Mining on the Mesabi Iron Range began around the turn of the century. The quality of the ore, its easy accessibility, and a ready-made harbor in Duluth led to rapid development along the entire range (Wohl 1987, 49). The economy of the region seems to have peaked in the early 1920s (p. 50).

While the mining industry has always been cyclical, the sharp decline in the early 1980s was seen more as a structural shift. Given the region's heavy dependency on mining, the overall prospects for the local economy were bleak. Unemployed workers on the Iron Range are predominantly miners who have been laid off as a result of reduced demand for steel, and subsequently for taconite. However, given the overall downturn of the economy on the range, the area's unemployed include many from mining-related industries as well as from other basic industries (Wohl 1987, 47). Wohl notes, for example, that the small town of Babbit had an unemployment rate in excess of 80 percent during the winter of 1983–1984. Unemployment across the region reached a rate of 33 percent in spring 1983 (Dewar 1986, 291).

A general economic shift away from such sectors adversely impacted the region in the early 1980s; the structural shift continues to affect the local economy. In 1994, these seven counties had twice the unemployment rate of the entire state—approximately 7 percent compared to a statewide average of 4.1 percent.[1] Recently, the overall economic boom in the economy has lowered rates in both the region and the state; these rates are significantly lower than national averages, but a gap still remains between this region and other parts of the state. Table 6.1 illustrates recent unemployment rates in the region.

TABLE 6.1
Unemployment Rates in Region, by County

Jurisdiction	*1990*	*1994*	*1995*
County			
Atkin	10.8%	10.3%	9.4%
Carlton	7.6	7.7	7.0
Cook	9.1	5.6	5.8
Itasca	10.7	11.6	9.4
Koochiching	7.1	9.7	8.7
Lake	6.8	6.1	5.2
St. Louis	6.6	6.4	5.7
State			
Minnesota	4.9%	4.0%	3.7%

Source: Bureau of Labor Statistics

Educational attainment for the region is below state averages. The most recent (1990) Census data reveal that 79 percent of those over 25 had attained a high school diploma compared to an 82 percent statewide average. Only 15 percent of those sampled were college graduates, compared to a statewide average of 22 percent. Atkin, Carlton, and Koochiching counties impact significantly on these figures. While the other four counties are roughly comparable to the rest of the state, these three have high school diploma attainment rates of 70.5 percent, 75.1 percent, and

1. Compiled from *County Business Patterns* data, 1996.

73 percent, respectively. In terms of college graduates, the rates are 9.5 percent, 12.2 percent, and 10.4 percent.

DESCRIPTION OF CASE PROGRAM

History, Mission, and Philosophy

As discussed above, the regional economy of northeastern Minnesota historically has been dependent upon natural resources—particularly mining and timber. While these sectors had always been economically cyclical, the bust of the mining industry in the early 1980s was fundamentally different. Mary Mathews, president of NEF, recalls:

> In 1979, 16,000 people in the region were employed in the mining industry, and the same number were in the indirect industries that supported it. Then, all these firms realized that they had to become more competitive. We have a highly educated region—second-generation immigrant families make sure their children attend college. But after college, they went to work in the mines because the wages were better. . . . After all these technological changes, there were few general labor jobs available. Today, mining production is nearly the same as in 1979, but they're doing it with 5,000 workers.

This restructuring of the industry left local economic development officials struggling for ways to diversify the regional economy. In 1985, the Blandin Foundation (a local nonprofit) organized a regional leadership forum to identify regional strengths, discuss what was needed, and lay the groundwork for implementing such programs. After these discussions, Blandin began funding local initiatives designed to meet those needs.

Nick Smith, an attorney from Duluth, saw the need for equity and venture capital in the region to spur growth. Blandin provided Smith with resources to conduct research into this area, and he spent the next two years exploring various development financing mechanisms around the country. Upon completing this research, Smith founded two organizations, Northeast Ventures Corporation (NVC) and the Northeast Entrepreneur Fund—which together form Northeast Ventures.

According to a June 1997 business plan:

> The Northeast Entrepreneur Fund was created in 1989 as part of a coordinated effort to rebuild and diversify the economic base of a rural, seven-county region of northeastern Minnesota. NEF's mission is to foster an entrepreneurial spirit and encourage economic self-sufficiency through the growth of small business and self-employment opportunities in northeastern Minnesota.

Mary Mathews, when asked about this mission, said, “It’s creating role models by concentrating on one business at a time. Through their experiences, and how we talk about them in the region, it helps other people think more broadly about their possibilities.”

Many of those interviewed noted the lack of entrepreneurial spirit in the region. Mark Phillips, Director of Economic Development for Minnesota Power, remarked, “We had a whole lot of absent ownership in this region. You don’t develop much of an entrepreneurial culture in that environment.” At the same time, many were positive about the potential for small-business development in the region. Henry Hanka, executive director of the Arrowhead Regional Development Commission, notes, “In northeast Minnesota, there’s a whole lot of people with wonderful ideas, [who] tinker away at them. . . . People here are fiercely loyal, fiercely independent, and great tinkerers.” One goal of NEF is to help people turn these ideas into successful businesses.

Methodology

Application and Screening Process

Customer[2] contact with NEF begins with an introductory workshop. This free three-hour session includes an introduction to the organization and its mission. “We then talk about personal housekeeping issues, and then the business process, and then we give them some information about our loan fund,” notes business consultant Barbara Myers. The individual is subsequently asked to decide if NEF would be the best agency to serve them. If the customer decides to continue with the organization, they are asked to bring a personal budget and credit report—so that any personal finance issues may be addressed—and they can sign up for a workshop.

Target Population

NEF, according to its 1997 business plan, sees its targeted population as:

- inexperienced or experienced entrepreneurs without access to traditional sources of technical assistance (TA) and financing;
- women;
- low-income individuals;
- minorities; and
- residents of the region whose businesses will be located in the region.

However, NEF does not engage in any specific targeting. According to Mathews. “The targeting we do is general towards the market. We don’t do an income screen, but we do use a sliding scale to charge for services. That’s by design. We’ve never hung a sign on the door that says ‘low income.’ But by the way we market ourselves, and talk about ourselves, that’s the way it happened.”

Training

The training provided by NEF has changed over time. Originally, in an effort to serve the entire seven-county region—not just the Duluth area—all training was one-on-one counseling.

2. NEF prefers the term “customer” to “client.” When asked why, Mary Mathews said, “Clients is a social service term. Customer is different—they are paying for services from us.”

However, as the program grew, that system became unmanageable. Mathews noted, "Unfortunately, we were trying to be all things to everyone, and that only worked for a while. We got too big to handle it like that."

Group introductory workshops were then held at various sites around the region, including Grand Rapids, Virginia, and Duluth. An all-day business-planning workshop was introduced. Eventually, a series of seven workshops was developed, which were supplemented by individual consulting sessions.

Last year, NEF decided to drop the workshops in favor of a classroom-based course. This ten-week program would cover the same curriculum as the workshops, but in a sequential order. Previously, workshops could be taken whenever a customer wanted, and in any order. Part of NEF's motivation was to reduce the burden on its staff by lowering some of the logistical costs; one course is easier to administer than seven workshops. An additional motivation was to provide entrepreneurial training to a broader audience. "We know that self-employment training enhances employability, even if you don't start a business. Self-employment training gives people a broader sense of what is possible than other training," remarked Mathews.

This new approach has been met with some skepticism by NEF staff. One staffer remarked that it actually creates more work for her. There seems to be a general sense that a balance between the workshop and classroom structures should be sought in the future.

However that balance is struck, all of those interviewed stressed the importance of training and technical assistance for NEF customers. Mathews notes, "We started as a loan fund and discovered that without training, there are very few good borrowers. Some places will say that they are credit led or training led. I think that we're a credit-led trainer."

Lending

NEF was created at the same time as its affiliate, Northeast Ventures Corporation (NVC), a for-profit community development venture capital fund. Nick Smith, the founder of both organizations, saw a need for venture capital in the region in order to spur growth and thereby diversify the economy.

Tom Renier, director of the Northland Foundation, served Smith in an advisory capacity as these organizations were established. Later, Renier served on the board of NEF. On the relationship between Northeast Ventures Corporation and NEF, he notes:

> Some people don't see that connection between the for-profit, high-end venture capital thing, and then the microenterprise thing. While they could exist independently if they had to, they really do have a lot in common. Both seek to provide capital where the private markets are not able to do so. What makes them different is the amount of work that's needed for those very small loans. . . . As it evolved, it was realized that the best way of doing this [microloans] was not to give people money and walk away. Their [NEF's] process is very labor intensive, nurturing, counseling, and with a bit of money to get things going. I said that this is the right way to do it [microloans]. These are people who aren't ready without the training.

The Northland Foundation also makes direct loans to businesses, but on a much larger scale. According to Renier, "We've got an $8 million loan program with one loan officer. We do loans, not technical assistance. People come to us who are bank ready." He sees the work of NEF as a "crucial link."

Table 6.2 summarizes the lending activity of NEF over the past five years. Only three of ten customers receive a loan, and customers must have completed several workshops and a business plan before a loan is considered.

Since its inception, NEF has made 129 loans to 91 businesses in amounts ranging from $125 to $25,000. Loan volume has averaged $120,400 (17 loans) per year. The average loan size has been $6,800, and a typical term is 3.5 years.

NEF has made 52 percent of its loans to women, 84 percent to low-income borrowers, 29 percent to welfare recipients, and 9 percent to minorities. The geographic distribution of loans reflects the population concentrations in the region: 26 percent in the city of Duluth, 41 percent in non-Duluth St. Louis County, and the remainder spread across the rural counties.

TABLE 6.2
Summary of NEF Lending Activity

	1993	*1994*	*1995*	*1996*	*1997*
Number of loans disbursed	9	24	25	13	20
Number of businesses financed	9	20	20	11	20
Percentages of start-ups financed	44%	65%	60%	64%	33%
Total dollars loaned	$22,768	$153,700	$177,216	$146,400	$199,692
Active borrowers at year end	28	30	33	34	39
Total outstanding principal	$98,197	$166,079	$279,855	$341,238	$400,712
Loan loss reserve	$21,917	$32,350	$43,500	$51,200	$58,650
Average loan size	$2,530	$6,603	$7,089	$11,262	$9,885
Portfolio at risk	11%	0%	6.3%	20.5%	32%
Percentage of loan loss (annualized)	31%	5.5%	.58%	4.58%	4.6%
Total loan capital	$423,944	$552,446	$530,781	$709,234	$781,425

Source: Data provided by program

Recently, NEF shifted its lending strategy. Previously, the largest loans made were $25,000. In the past year, NEF increased its loan ceiling to $100,000. According to Mathews, there were several motivations for this change. First, customers who had been in business for a few years still experienced difficulty in accessing the traditional credit markets but often needed additional capital for expansion of their businesses. To serve these customers and to promote the growth of their businesses in the region, NEF sought to continue its "mission to diversify the regional economy." A second reason for offering loans on a larger scale was NEF's need to generate income to sustain its technical assistance and training programs. Mathews notes, "We've been blessed with a couple of funders who have provided general operating support. But those days are running out. We need to figure out how to support our operations internally, as well as with grant funding." NEF believes that larger loans will not only generate more income but will do so with lower technical assistance costs. In the future, lines of credit and purchase order financing may be added to these larger term loans.

Relationships with Other Organizations and Institutions

In general, those engaged in economic development in northeastern Minnesota have a very strong and positive working relationship. Key to this is the Arrowhead Growth Alliance. This informal group works to coordinate and facilitate activities between the various public and private agencies that operate in the region. “Sometimes it’s heavy issues, often it’s information sharing,” notes Renier.

All of the agencies interviewed for this project commented that each program has a fairly well-defined niche. “Everyone has carved out pretty specific goals, so we all do our own things,” Renier continued. Henry Hanka of the Arrowhead Regional Development Commission (ARDC) asserted, “We don’t try to cross roles. They [NEF] have a specific goal, and we don’t try to duplicate what the other does. They run a good solid program, and we’re not going to monkey with it. They have a different clientele.”

“Back in 1985 and 1986, everyone wanted to be a hero, and it was really competitive,” notes Robert Palmquist, who runs the ARDC loan fund. “Now, we network and see the need for coordination and leveraging.” A local banker, in discussing why he would refer someone to either NEF or a Small Business Development Center, also expressed this sentiment. “Often it may just boil down to personalities and how a service is delivered. It’s just like coming to a bank. We all offer about the same kinds of products, but the exact details, and how they are actually provided, will determine where someone is best served and feels most comfortable.”

Changes in Mission and Methodology Since Inception

When asked, Mary Mathews states that the mission of NEF has remained constant over the program’s nine-year history. “We are still committed to diversifying this region’s economy by promoting an entrepreneurial spirit,” she notes. “But this is always a learning process. We have a strong commitment to evaluation and learning, and try to learn as much as our customers do. We are consistently trying to improve what we do.”

As illustrated above, this learning and evaluation process has resulted in changes to NEF’s methodology. Training has moved from a strict one-on-one format to a combination of one-on-one and classroom-based learning. Lending activity has expanded in an effort to generate additional revenues and provide greater programmatic support. And relationships have been developed with other service providers in the region.

Funding

Current Sources

In the original design of Northeast Ventures, the revenue from the venture capital and microloan activities would support the technical assistance programs of NEF. However, it quickly became evident that the technical assistance and training elements could not be wholly supported by these sources. As with most other microenterprise programs, NEF relies heavily on outside grant support for its technical assistance programs. Table 6.3 lists secured sources of income for the program’s 1998 budget.

TABLE 6.3
NEF's Income Sources

Source	*Amount*
Ford Foundation	$50,000
Northwest Area Foundation	59,000
Rural Business Enterprise Grant (RBEG)	25,000
SBA — Microloan	55,000
CDBG, St. Louis County	55,000
CDBG, Duluth City	37,500
Mott Foundation	50,000

Source: Data provided by program

In addition to these sources, several grantors provided support in 1997, and were expected to continue to provide support in 1998. They include the Iron Range Resources and Recovery Board (IRRRB) and the U.S. West Foundation. With earned income from other contracts to provide training, as well as income generated from loan service, NEF is predicting an income of $815,750 in its budget for 1998. As a basis for comparison, in 1997 the program's actual total income was $647,642.

Sources over the Last Five Years and Explanation of Changes

According to Mary Mathews, funding for NEF has diversified over time. "It used to be totally private foundations," she recalls. "The Northwest Area Foundation, Mott, and Ford were the original large supporters. The government sources have grown over time—like the contract with the City of Duluth." Currently, NEF has contracts with both the City of Duluth and St. Louis County to provide entrepreneurial training. Those contracts utilize Community Development Block Grant (CDBG) resources.

Outputs

Number of People Trained

From the inception of the program in 1989 through the end of 1997, NEF received 4,667 inquiries from customers, resulting in a total of 2,436 customers served. As mentioned above, this training historically had been one-on-one assistance but has moved toward more group-oriented learning in recent years, first with the development of workshops and then with the introduction of a classroom-based course in 1997.

Most (2,351) of these customers have attended the Introductory Workshop, which is one of the requirements for a loan. The Market Planning workshop was attended by 502 customers, and 107 customers took the Cash Flow Planning workshop. Other workshops include Operations (60), Record Keeping (88), Selling Skills (54), and Packaging / Promotions (33).

The 2,436 customers who received technical assistance from NEF since 1989 were responsible for 205 businesses being started, stabilized, or expanded. Table 6.4 shows that the number of customers served has risen steadily in the past five years. The majority of businesses served have been start-ups, but that number has been declining. According to Mathews, in 1989 only 5 percent of businesses served were not start-ups. Today, as many of their customers' businesses have matured, NEF's relative share of start-up businesses has declined.

TABLE 6.4
Customers Served

	1993	*1994*	*1995*	*1996*	*1997*
Number of TA customers served	344	398	433	483	542
Resulting number of businesses started, stabilized, expanded	30	39	50	64	59
Percentage start-ups	87%	74%	76%	82%	70%
Jobs created, retained	39	73	102.5	124.5	128

Source: Data provided by program

According to NEF, a total of 660 jobs have been created or retained since the program inception in 1989. This, and the employment figures given above for the study period, may seem relatively unimportant to the regional economy. However, given that half of NEF's customers live in small rural towns (populations of less than 5,000), the impact of a small number of jobs in such places is more significant than in more urban places.

Outcomes

Types of Businesses Started

Roughly half of the businesses started by NEF's customers are in services (Table 6.5), which is typical for microenterprise programs and the region.

TABLE 6.5
Businesses by Sector, 1993 to 1997

Type of Business	*Retail*	*Manufacturing*	*Services*
Total	83	87	174
Percentage	24%	25%	51%

Source: Data provided by program

To illustrate the range of businesses started by NEF customers, below is a listing of business starts from 1997, based on data provided by NEF.

Businesses Started in 1997 by NEF Customers

Candy/Fudge Retail		Etching and Engraving	Mortgage Broker
Child Care	(2)	Fastener Distributor	Outfitter/Guide
Children's Clothing		Farrier	Pet Products
Computer	(2)	Finance Company	Photography

Consulting Services		Florist		Real Estate	(2)
Crafts	(3)	Furniture Manufacturing		Reel/Rod Repair	
Custom Embroidery		Graphic Design	(2)	Resort Directory	
DJ/Promo		Hair Salon		Restaurant	
Dog Grooming		Inventory Control		Taxi Service	
Drywall/Stucco		Lawn Maintenance		Tile Setter	
Engine Repair		Massage Therapist	(2)	Transmission Repair	
				Uniform Store	

Findings from Client Side

Typical Client

When asked to describe the typical client, Mary Mathews responded:

> It's hard to describe, because we serve a wide variety of people. However, most of our customers are low-income. Half are women. Our customers want to live in northeastern Minnesota, but their job options are limited. While most of our customers want their business to be the primary income source for their family, increasingly self-employment is part of an income patching strategy, combined with part time employment. They have little or no business experience; most have never known anyone who has owned a business. Most have some education beyond high school. They are skilled and usually have experience producing their product or service.

Geographically, NEF's customers reflect the population of the seven-county region. Of the program's 1997 active customers, 63 percent (343) live within St. Louis County, which includes the city of Duluth. Most customers (66%) are between the ages of 30 and 50.

Of 1997 active[3] customers, one-third described their primary source of income as self-employment, more than one-fourth (26 percent) a full-time job, and less than 15 percent cite AFDC or Social Security as their primary income sources.

In 1997, 53 percent of all active customers were women. The annual household income of these customers, given in Table 6.6, illustrates that more than half (55 percent) earn less than $20,000 each year.

TABLE 6.6
Household Income of Customers

Annual Household Income	*Number*	*Percent*
Less than $10,000	148	27
$10,000 to $19,999	151	28
$20,000 to $30,000	86	16
Greater than $30,000	121	22

3. "Active" is defined as having requested some service within the prior six months.

Unknown	36	7

Source: Data provided by program

According to CDBG Income Guidelines[4], 65 percent of these customers were low-income, with an additional 8 percent designated as moderate-income.

Range of Clients Served

As mentioned above, NEF has a specific target population. This includes low-income individuals, minorities, and women. Over the five-year study period, the program seemed to be reaching its target population, as indicated in Table 6.7.

It should be noted that the minority population of the region is about 3 percent, primarily Native Americans, with some black and Latino. As NEF notes in its 1997 business plan, "The level of current participation indicates a high level of poverty and lack of economic opportunity among minority populations."

4. CDBG guidelines define low-income as individuals earning less than 80 percent of the local median household income.

TABLE 6.7
Customer Demographics

Customer Demographics	*Women*	*Minorities*	*Low Income*	*Public Assistance Recipients*
Training and TA Participants	48%	10%	70%	13%
Resulting Business Owners	49%	10%	76%	17%
Loan Customers	52%	9%	84%	29%

Source: Data provided by program

Definitions of Success/Client Goals

Most NEF customers interviewed for this research expressed self-sufficiency as a their primary goal. One AFDC recipient, who had participated in the SEID program, said that his goal was:

> to generate enough income to support my family. Neither my wife or me are very materialistic. We just want to be able to support ourselves, and take care of our family. It's very important to teach kids responsibility.

Another customer, who had worked in retail most of her life, also expressed self-sufficiency as a primary motivation.

> I would like to have my own house. Financially, I would like to be better off. To be able to provide for myself and my kids. To stand on my own and say "Here I am." I don't know if I'll ever be well-off, but I'd like to be on my own.

Most customers expressed this type of sentiment; they did not desire great wealth from their business, but had more modest goals. Another customer with a home-based business noted her need to reevaluate her goals:

> When I started, my goal was survival, and I did. Now I'm setting new goals. Maybe I'll have a little shop. . . . [Success will be] when I'm making enough money to live comfortably without worrying. Teaching others to benefit themselves by what I know, and giving them the knowledge they need.

In terms of long-range goals, most customers maintained these modest aspirations. One successful business owner commented:

> Ever since the business started, we've had slow but steady growth. I'd like to maintain that. I have no dreams of being the next L.L. Bean.

Another customer, who recently opened a business with her sister, saw the long-term growth limitations on her business as a result of its location in a small town:

> In the long term, I want to retire in five years. My sister is a glutton for punishment. Knowing her, she'll keep the business until she dies. The business will increase, and we'll be able to make a living off of it, but it will stay small, since this town is small.

Reasons for Pursuing Self-employment

Most, if not all, of the customers interviewed for this research cited the economy as a factor in their decision to pursue self-employment. Due to its dependence upon resource extraction industries, the regional economy in northeastern Minnesota was devastated by the decline in the mining and timber sectors in the early 1980s. One business owner, capturing the sentiment of many, recalls:

> When I started the business ten years ago, the mines had just shut down. To give you an idea: When I was looking for a house 11 years ago, 15 of the ones I looked at were under $15,000. People were just walking away. I wanted to live here, but there weren't any jobs at all. So I wanted to get a business going. It was the only way.

Many of those interviewed expressed this strong desire to stay in the region, preferably in their hometowns. A strong sense of community was detected in NEF customers.

Additional reasons for pursuing self-employment were cited. Some customers, like this artist, were simply looking for a change:

> I started this particular business as a midlife crisis, in a sense. I had worked in other employment for eight years and was at a point of burnout. I wasn't going to spend the rest of my life in that job.

Others stated that they had always wanted to start their own businesses, and the timing was now right for it. This business owner started her own business in October of 1996:

> I've been in retail for 20 years. I've always wanted to have my own store, and I've been toying with it for five years. Four years ago, I went to an NEF seminar. My kids were old enough, and I was young enough, and I had a lot of practical experience.

Advantages/Drawbacks of Self-Employment vs. Mainstream Work

One of the most commonly cited advantages of self-employment over waged work was the challenge. While this was also mentioned as a drawback, the business owners interviewed generally enjoyed the challenges they faced as entrepreneurs. The artist mentioned above remarked:

> I like the challenge of figuring it out. The possibility of creativity, to say, "Let's do it this way," and not have the bureaucratic structure on top of you. And there's a certain kind of pride when I look at something I've made. . . . I can get the instant reaction from someone who's seen my work and the glow in their face when it touches them. I don't think I've ever had a job where I see that on the other side of the table.

Another NEF customer noted:

> I like self-employment better. The challenge of it—there are so many different things you have to do. I kind of like the stress and the opportunity of better income down the road.

Others, like this health industry worker, experienced frustration with traditional waged jobs:

> I was working for a program in Carlton and Lake counties for a while, but it became bureaucratic. I didn't go to college for six years to be a pencil pusher. I was trained to help people, and that wasn't what most of my time was spent doing. . . . So I decided to leave and open my own business. . . . I'm much happier. I'm free. I do what I like without all the rules and regulations.

Still others noted that they would have continued to work in a waged job, had circumstances been different:

> The place I was in right before this—it could have been a lucrative thing, had they been willing to do what was needed. I would have stuck with it, too, if they did. . . . Running a store is something I've found I'm capable of. I'm more of a leader than a follower; I'm better at setting the direction. And, having my own store is something I've always wanted to do.

Relationship with NEF

All of the customers interviewed had positive relationships with NEF, although the experiences of each customer varied depending on that customer's needs and prior knowledge of business. One woman, who had been a housewife for most of her adult life, said:

> NEF has been a help to me. You're a housewife, and you don't know how to do it. And they're real supportive of how a business should work. I wasn't used to making decisions before. They help you out and point you in the right direction. You work with a personal consultant, and that was helpful. You put your trust in them, and they earn it by showing you how to do things. And they know how to help you. . . . They really got the ball rolling when I

> wouldn't know where to go or what to do. . . . Sometimes, people start businesses that are handed to them, or they can stumble through and learn along the way. That just wasn't an option for me.

Many customers came to NEF with nothing more than an idea for a business. Working with consultants, these customers were able to take that idea and turn it into an operating enterprise, as this couple, who run a horse-shoeing business, explained:

> We needed to talk to someone about this idea. We saw the market for it in Minnesota. NEF showed us how to organize it, market it, advertise it, and look professional at it. We got an 800 number and that really helped. We started with a really big concept, and Suzanne helped us cut it down. We had the skill, but NEF showed us how to market it. They showed us to be sensible in the planning stage. The classes helped us take the useless stuff out. So we targeted our market, and learned what contacts to make. It really helped us to get things down.

All the customers spoke of the workshops they had attended, although they couldn't always remember the details of what topics were covered, or when they took those classes. But almost all expressed satisfaction with the one-on-one technical assistance they received from a particular consultant. This business owner spoke of the intense assistance she received in the planning stages of her restaurant business:

> We started talking about it [buying a restaurant], called a real estate agent, got hold of Suzanne Cunningham, and had a one-on-one consultation. I saw her five or six times before deciding if we wanted to go into the restaurant business. All summer we worked on the business plan. We kept going back to Suzanne, and she'd critique it—she'd say, "You need more information here," and things like that. She was very positive. . . . [Without NEF, we'd be] in the hole, hurting real bad. They've been a great help. I don't think we could have made it through the year. We wouldn't have done a cash flow. And if Suzanne didn't insist that we went back for more research, we'd be real surprised on what the business needed.

Other customers who had specific training in their trade, but who had little business experience, spoke of feeling overwhelmed. This woman sought help from NEF:

> I knew nothing about being in business, so that's when I contacted Barbara Myers. I would be speaking with someone, and they'd throw around all these terms and letters, and assumed I knew the difference between a C-Corp and an S-Corp. I had a master's degree, but I became overwhelmed with all of this. I didn't want to make any mistake with the business, so I looked for help.

For others, working with NEF helped build confidence. A mortgage broker asserted the following:

> For me, I was pretty well-versed in the business; I knew what I was doing. NEF helped me to understand how to deal with obstacles, how to plan for the

> worst case, and how to plan for the best case, and make planning a part of the ongoing business process. There's a whole list of things that they helped me with, but if I had to sum it up, they gave me the confidence to know that my niche was right, my convictions were right, and that I was headed in the right direction. All I needed was to fine-tune parts of what I needed.

While only three in ten NEF customers apply for loans, assistance with financing and the financial aspects of their businesses were an important part of the training and technical assistance provided. Some customers in nontraditional businesses experienced resistance from commercial credit institutions, and NEF was able to help them. A licensed massage therapist noted:

> I had the training, and the idea for the business. I had called three banks, and they laughed a bit. I thought that I could borrow the money from some friends, but I didn't want to do that. I heard about NEF from some friends who had installed their phone system.

The operator of a home-based residential adult-care center had some problems with access to commercial credit:

> Without NEF, we wouldn't have made it. No bank would touch you. You'd already have to have a house that's already set up. So they helped us with the classes, and getting the loan together.

Many customers cited the incremental, personal, and one-on-one approach of NEF as key to their success. In comparing her experiences with other business consultants, this business owner noted the advantages of NEF's approach:

> There's a big need for what they're doing out there. I've been to other places—business consultants and the like—but it never worked. They [NEF] really helped me develop what was in my head: where the business was going in both the short and long term. They also helped me think about the financing. The other places were always real vague. They'd give me a worksheet to work on financial projections, but I didn't know how to do that. I was trying to put food on the table and make sales, so I didn't have time for those papers. So they would end up in a pile on my desk, and when I cleaned up, I'd find them and say, "Oh yeah. I was going to do that." With NEF, they were never pushy. They worked with me on very short-term goals, like when do you plan on coming in next, and what are you planning on having done. So it made me work at it a bit harder.

While most customers were very positive about their experiences with NEF, two issues were raised during the interviews. The first questioned the relevance of NEF training to particular sectors. One retailer, while discussing the potential location for her store, found it frustrating that her consultant didn't shop at a mall and couldn't relate to the impulse nature of her business. A health industry worker notes:

> My only criticism about NEF is that they are really geared towards products, and not services. The curriculum, the example, they just didn't apply to my kind of business. The general help was great, but there are things like taxing and the like that are different—very different—for health care providers.

A second issue, mentioned only by one customer, mirrors sentiments expressed by NEF staff. This customer noticed that the staff seemed to be more stressed than in the past. She, like some of the staff, believes that more consultants need to be hired, or the customer base reduced.

> When they upgraded the training this year…it seems to be a bit harder on the staff. They are a very tired staff now. Watching them as workers, it reminds me of when I was back at [her previous job]. It's an okay idea to increase training, but I think they need to increase the staff. This staff is very good, and can carry it, but I worry about them burning out in a few years. The training, and mentoring, and the one-on-one relationship—it's been good for me to have that. But I see her getting tired too. I see her as a person getting pulled in a lot of different directions. They need to have more staff, or fewer clients.

What Makes This Program Unique

When asked to describe what makes this program unique, NEF president Mary Mathews cited three factors. First, she noted NEF's strong one-on-one technical assistance component. "We have a very strong one-on-one approach to providing technical assistance, which makes it very expensive, but we have a very high success rate. Ninety-four percent of the businesses are around two years after we work with them." A second factor she mentioned was NEF's commitment to evaluation and learning. As mentioned above, this has led to a constant refining and updating of its curriculum and the means by which it is presented. Finally, she noted the difficulty in providing service to a large rural region, but believes that NEF is "successful in providing ready access in a dispersed rural region."

NEF is not the only provider of business technical assistance and training in the region. As in other parts of the country, this microenterprise program operates side by side with Small Business Development Centers (SBDCs). One banker, in describing whom he refers to each agency, said:

> NEF is for someone with no skill levels. [Someone with] a great idea, but have had a waged job, and no high degree of other skills. The SBDC is better for people that have a little higher degree of skills. Someone who goes to an SBDC, they're looking for a lower [less intensive] level of service [than they would receive at NEF].

Yet it appears that NEF is the only service provider for this particular niche of clientele—low- and moderate-income individuals with little or no formal business training who desire highly personalized assistance. NEF is well suited to these individuals.

Program Challenges/New Directions

The primary challenge identified by NEF staff is program sustainability. As discussed earlier, two methods are being implemented to reduce costs and increase revenues. First, a sequential, classroom-based curriculum has been added to the workshop-based training. One goal of this shift is a reduction in administrative costs. However, as mentioned, this new method is under scrutiny by NEF staff who question its savings potential. Since this new curriculum has only recently been put in place, it is too early to judge its impact.

A second method adopted to improve program sustainability is diversification of the loan portfolio. Specifically, this will be implemented by offering loans in the $25,000 to $100,000 range—a market previously served by Minnesota Power (which has since stopped making such loans). It is too early to judge how this increased loan activity will impact NEF's budget and whether these larger loans will generate significant additional revenues.

As mentioned above, these changes have impacted staffing. Both customers and NEF consultants have noticed an increased burden on program staff. One noted, "I'd say that in my first few years, there was a really high turnover—and not all of it voluntary. Part of it, too, is that you can only do it for a while since it doesn't pay as well as the private sector."

7

West Company

INTRODUCTION

West Company (West) began operations in 1988 and serves all of Mendocino County, a rural county located on the northwestern coastal section of California. West has its headquarters in Ukiah, an inland city, and a branch office in Fort Bragg, which serves clients on the coast. Although the program was initiated to serve women, credit and training are now provided to both women and men.

Mendocino County is located in northern California, bordered by Sonoma, Lake, and Glenn counties to the south, Trinity and Humboldt counties to the north, and the Pacific Ocean to the west.

The northern coastal region of California has been significantly dependent upon the timber industry for most of its history. Until the 1920s, this region's coastal redwood forests served a local (California) market; from the middle of the 1920s, a national real estate boom created a far larger market for California timber. According to Belzer and Kroll (1986), the state's lumber production peaked in 1955 with more than six billion board feet produced (Belzer and Kroll 1986, 2).

Figure 7.1 Mendocino County, California

Demand for lumber is generally tied to new housing starts. Belzer notes this trend and points to the prolonged stagnation in housing in the 1970s as a key factor in understanding the downward trend in demand for California lumber.

Second only to Humboldt, Mendocino County was a leader in the timber industry. The dependence of the county on a single resource, however, led to significant hardships as the industry declined. Table 7.1 illustrates the dependency of this county on the lumber industry, as well as its recent decline.

TABLE 7.1
Lumber and Wood Products (SIC* 24)
Mendocino County

	1978	*1981*	*1992*	*1995*
Employment	4,229	3,506	2,300	2,267
Percent of workforce	17.5	14.2	N/A	9.91

* Standard Industrial Classification code

Source: Belzer and Kroll (1986, 9); 1992 Economic Census; and 1995 County Business Patterns

DEMOGRAPHIC AND ECONOMIC BACKGROUND

The county is primarily rural, as mentioned above. There were 1,088 farms in 1992, nearly the same number as in 1978. Most of the county's residents—approximately 70 percent—live in unincorporated areas. The largest city, and the county seat, is Ukiah, with a population of about 15,000.

Long-term unemployment data show that Mendocino County roughly follows national trends but consistently has had unemployment rates three to six points higher than national averages (Figure 7.2).

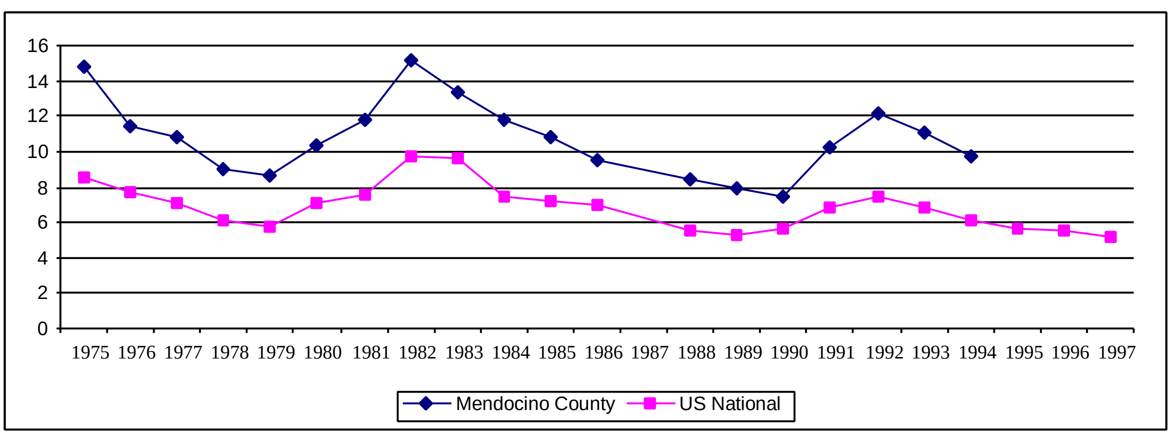

Figure 7.2 Civilian labor force unemployment rate, Mendocino County and U.S., 1975 to present
Source: U.S. Bureau of Labor Statistics

Mendocino County traditionally has been poorer than the rest of the state. Recently, however, Mendocino County experienced some modest growth in income levels. The average annual growth rate of per capita personal income over the past ten years was 4.5 percent. The average annual growth rate for the state of California was 3.9 percent, and for the nation, 4.9 percent (BEA 1995).

Other Agencies

Mendocino County sponsors a Business Incentives Program designed to encourage economic development. Services provided include site location assistance, economic and demographic data, permit assistance, employee training through local community colleges, and a revolving loan fund. The County is marketing the quality of life in Mendocino—redwood forests, the Pacific Ocean, good schools and health care, as well as a "bustling economic environment" (Mendocino County 1997).

Public Support for Microenterprise

West Company is the only microenterprise program operating in Mendocino County, although neighboring Lake County does have a publicly funded revolving loan fund. There is no public funding at the local level. At the county level, West previously had a very good relationship with the Mendocino County Economic Development Agency, but funding for that agency was historically sporadic and the agency effectively ceased to exist when the last director left in 1995. West also participates in a group called Mendocino Works, which is an informal collective of 86 organizations—ranging from the California Conservation Corps to the Mendocino Transit Authority to the College of the Redwoods—that meets as necessary to discuss problems and issues affecting the county.

West Company is a founding member of California Association for Microenterprise Opportunity (CAMEO), a statewide trade association for microenterprise programs. Sheilah Rogers, executive director of West Company, is a board member of CAMEO and works specifically on policy issues. California historically has not supported the microenterprise movement. For the past three years, Dianne Watson, a state legislator, carried a microenterprise bill. Last year, this piece was included in the welfare-to-work plan, but Governor Wilson vetoed the budget, and the bill therefore is being implemented without a funding stream.

DESCRIPTION OF CASE PROGRAM

History, Mission, and Philosophy

West Company (West) was formed in 1988 and is incorporated as West Enterprise Center. At the time of its inception, West served women exclusively but it is now open to both women and men. The program is designed to serve low-income people, especially women and minorities, by providing professional planning and management training, consulting, peer support, and access to capital. West partners with other community agencies and contracts to provide services with the Mendocino County Small Business Development Center. West serves all of Mendocino County, a rural area with a population of 86,000 and an economy dominated by agriculture and tourism. The program's headquarters is located in Ukiah, which is about 100 miles north of San Francisco. A smaller office, opened in 1990 and located in Fort Bragg, serves the coastal part of the county.

The mission of West Company is to promote microenterprise as a strategy to increase economic self-sufficiency and social well-being for people with limited access to economic resources. West Company accomplishes this by providing business assistance and access to capital and by fostering policy development that supports microenterprise.

Methodology

Application and Screening Process

Prospective clients approaching West Company with an interest in obtaining credit and/or training first go through an orientation, to learn about the services the program offers. Some clients self-select out at that point if they recognize that the program is not a good fit given their particular needs. According to Toni Klein, the business development director, "A common reason is that many people can't handle the structure, and don't want to make the time commitment needed to completely research their idea." The next stage is attending a one-half day "Starting a Business" workshop in which needs can be assessed and a work plan designed to meet those needs. Individual consulting follows this workshop. Klein generally works with those who are in the start-up phase of their business; those who have larger businesses, or who have been in business longer, are typically referred to one of the SBDC consultants who work with West Company. Sometimes a client will work with Klein for several months before moving on to another consultant once his or her business is past the start-up period.

West Company screens clients to determine their readiness for specific programs. According to Klein, clients come to West Company looking for different things. Some go through the initial feasibility analysis and then leave, either because they realize that their business idea is problematic or because that is all they need at the time.

Target Population

Mendocino County is a poor county with historically high unemployment; West Company targets low-income people. The first funding West Company received (from the James Irvine Foundation and the SBA Office of Women's Business Ownership) was explicitly for women, and West Company started out serving women exclusively. When it became obvious that there was a real need to serve men, given the declining nature of the timber and fishing industries that had long supported the Mendocino economy, West Company opened its doors to men while maintaining a commitment to serving women, particularly low-income women. According to Sheilah Rogers, executive director of West Company, "There is a greater need to serve women, and they have different issues." West Company built a close relationship with the Department of Social Services and works with women on TANF (Temporary Assistance for Needy Families, formerly AFDC). Five percent of the clients served during the past five years were on public assistance at the time of intake into the program. West Company's current client population is about 70 percent women and 30 percent men.

In 1997, West Company received a three-year grant from the Charles Stewart Mott Foundation to work with the welfare population. This funding supports West Company's business resource groups, which are designed specifically for very low-income women. These programs, which operate twice each year in two locations, run for about five months and are more structured than the rest of the West program.

The Latino population of Mendocino County has increased in recent years, leading West Company to do outreach specifically geared toward this group. Many Latinos in Mendocino County live outside the city limits of Ukiah. They work in agriculture, wineries, and lumber mills. According to Celia Mendoza, the bilingual program manager who works with this population, several challenges to serving this group exist. Some do not have access to transportation and therefore have trouble attending meetings. Others have low literacy and/or poor math skills. Affordable child care is also a major need. Cultural issues also exist. One woman's husband was threatened by her desire to pursue self-employment and asked her to stop attending classes, which she did. Others, who may have experience running businesses in their own countries, have trouble learning about the strict regulatory environment in which U.S. businesses must operate. According to Mendoza, some "do not understand the health regulations [for food businesses]. They don't want to deal with that. They want to start now, and they want to set up a table and some chairs and sell, because that's how business was conducted in their country." At the same time, a tradition of entrepreneurship exists in this population. According to Klein, the Latino population is "very motivated, very entrepreneurial, and they see small business as an option, as a way to get out of minimum wage jobs."

Training

The West Company's loan preparation program is designed to help potential borrowers define their business development goals and evaluate their capital needs. Potential borrowers participate in credit education and financial management sessions and refine their business plans for loan application. The curriculum consists of four chapters covering feasibility, management, marketing, and finance, which clients work through with the help of their business consultants. Completion of all four chapters results in the completion of a business plan.

At West Company, about 40% of the clients work through the business plan training on an individual basis rather than in group classes. According to West business consultants, this decision is based largely on the lack of population density in Mendocino County. There simply are not enough people to run classes continuously. In addition, clients travel significant distances, come to West Company at different stages of their business, and have a range of other time constraints, making the task of scheduling group classes and attracting adequate numbers of participants nearly impossible. After being assigned a business consultant, clients begin preparing their business plans aided by a checklist. According to Toni Klein, who does the majority of training at the West Company's Ukiah office, most clients schedule monthly appointments with her to work through the curriculum. It generally takes about six months for them to become ready to borrow, although the length of time varies greatly depending on the client's motivation and other commitments. The one-on-one nature of the training allows the business consultants to use the curriculum very flexibly. According to Klein, "Things are not linear—they are all tied together."

After the business consultant reviews the business plan and finds it satisfactory, she refers the client to the loan fund manager. In addition to the one-on-one work they do with business consultants, loan clients are required to attend a credit education seminar scheduled by West Company.

West Company also requires that borrowers continue to participate in technical assistance for the entire term of their loans. Upon approval from the loan committee, clients are required to sign a technical assistance agreement to meet quarterly with either the loan fund manager or with their business consultant. Clients are also required to provide West Company with quarterly profit-and-loss and balance sheets.

In addition to individual consulting, West Company offers workshops on topics that generate a great deal of interest. These include: Shoebox to Spreadsheet, a workshop for people who want to learn how to keep records for their business; basic marketing; and Starting a Business.

Ongoing groups include the business resource groups for low-income women, which was described above, and Flexible Business Networks (FBNs) – a new strategy to address access to markets. West Company also offers training in conjunction with the Fort Bragg Chamber of Commerce, the College of the Redwoods, and Mendocino College.

Lending

West Company provides credit through three loan programs: Individual Loan Program; Opportunity Loan Program; and Peer Lending Circles. Under the Individual Loan Program, the West Company grants loans ranging from $250 to $5,000 coupled with an individualized program of technical business assistance. Potential borrowers enter a loan preparation program for a six-month period. They participate in credit education and financial management sessions with West Company business consultants, during which they refine their business plans prior to loan application. Upon completion of the program, participants are eligible to apply for loans with one- to two-year terms. According to West Company literature, the purpose of the Individual Loan Program is to provide access to capital for individuals who may not qualify for traditional lending programs. The technical assistance component of this program enables borrowers to assess their business development goals and evaluate their capital needs. Loan approvals are based on the quality of the relationship between the applicant and his or her business consultant(s), along with credit history, available collateral, and other assets. Approval for individual loans is given by the loan fund committee, which meets on the second Wednesday of each month at the Ukiah office. Carol Steele, West Company's loan fund manager, uses a checklist when evaluating loan applications:

> I look for cash flow projections, and of course how they will make loan payments. And I look for what resources they have and if they can make the payment from the business. We order credit reports, but for information only. We don't base decisions on that.

One of West Company's primary goals is to make clients bankable. West partners with small, local banks to buy into larger loans. According to Ross Welch, a loan officer at Savings Bank of Mendocino County who has worked with West Company's Fort Bragg office for the past few years:

> You want them to be bankable, and they get them there or teach them to be bankable. To start a business, you have to figure out all the costs, and they do that. . . . It also weeds out people who don't have the passion, who don't want to get into the numbers. [Getting through the West program] shows the dedication.

The purpose of the Opportunity Loan Program is to provide access to capital to individuals who require a small amount of money—between $100 and $250—immediately. West Company requires verbal credit reports as well as personal references for all borrowers. These loans are written as demand notes, and all are due and payable within 90 days. These loans require less bureaucracy. Approvals can be made by two loan fund committee members, rather than a majority.

When West Company began operations, it emphasized peer lending. It has since largely phased out this program, and West is not encouraging any others to start. In the Peer Lending Circles loan program, the members of the circle must follow the policies and procedures set by the group. West has had five groups that dissolved very quickly, a couple that lasted long enough to accomplish what they were intended to accomplish, and one that lasted five years and just recently disbanded. West peer groups required a large time commitment, and many clients barely have enough time for their lives and their businesses as it is.

West Company made 55 loans between 1993 and 1997. Table 7.2 illustrates loans by year.

TABLE 7.2
West Company Loan Fund History

Year	*Number of Loans*	*Average Loan Size*
1993	11	3,266
1994	10	3,019
1995	9	3,417
1996	8	1,051
1997	17	$2,650

Source: Data provided by program

Those clients interviewed who have obtained loans from West Company have used them for a range of purposes, from equipment (a massage table, a potter's wheel and kiln) to credentials (licensing fees) to working capital (paper for making cards, clay) to purchasing buildings. Some clients rely on West Company for credit and have taken out several loans. Others have graduated to banks.

Relationships with Other Organizations and Institutions

West Company is a small program operating in a large and very dispersed county. The partnerships it has entered into with other organizations and institutions help West Company reach a larger population and leverage greater resources than it could acting on its own.

West works with the SBDC in both the inland and coast offices. The financial structures of West and the SBDC are separate, but the provision of services is quite fluid. Although some staff believe that the partnership could be improved, Rogers claims that the relationship with the

SBDC enables West to serve more clients, and a broader range of clients. The partnership, she says, is "a way to offer more."

County-wide, West Company works with two community colleges, the County of Mendocino Department of Social Services (DSS), and the Private Industry Council. West Company works with DSS on a welfare-to-work program called Job Alliance. West and Job Alliance provide coordinated services to people on TANF who are trying to become self-employed. According to Judy Morgan, the resource person for the Job Alliance program:

> If someone [on welfare] is there [at West] trying to start a project of their own, they would be better off over here. We think it is to their benefit because we can get them child care and transportation, to give them time to work on their project, plus get them some money if they are just starting out. They have six months before they need to make minimum wage.

In Ukiah, West Company collaborates with Mendocino College for two purposes: 1) to continue to develop collaborative curricula and services to assist local small businesses with their business planning, start-up and/or expansion needs, and 2) to develop a regional workforce development plan with other training and service providers. One of the latest ventures between West and the college was a series of specialty short courses for production-based textile, fashion, and home interior businesses. The courses were team taught by Mendocino College, West Company, and private-sector instructors and employers.

In Fort Bragg, West Company partners with the Chamber of Commerce, the College of the Redwoods, and the Savings Bank of Mendocino County. The latter relationship was described in the section on lending, above. At one time, West had a collaboration with Advancement Enterprises, which provides life skills training for welfare recipients. Although the need for that kind of work continues to exist, this program lost its funding and ceased operations. In addition, the City of Fort Bragg has committed to the establishment of a loan fund for small business owners who live in the city.

Many of these relationships grew out of Mendocino Works, a county-level association of organizations that work together on economic development and labor force issues.

Changes in Mission and Methodology Since Inception

Perhaps the biggest change in the mission of the West Company was the expansion of the program to serve men. According to West staffers, this decision was made out of necessity, because there were not enough sources of funds to support a women-only program. This shift to serving men had something to do with another major change—a new focus on individual lending rather than peer lending. The way West peer groups were structured required a significant amount of staff time, and the individual training and lending seemed to yield a greater return. The West Company started out doing only peer lending, but quickly added individual loans after it reached the realization that not everyone would commit to the long-term work of building a group.

Funding

Current Sources

Table 7.3 shows West's sources of funding and the percent of the 1997 budget that comes from each source. Over the past five years, West Company has increased the portion of its budget that comes from private foundations. Staffers credit the program's greater visibility, which has enabled it to establish relationships with national funders, for this increase in foundation funding. In addition, the program has seen an increase in its contracts to use funds available through local sources. West has formed relationships with local economic development practitioners that have led to these contracts. These practitioners have exhibited a greater willingness to collaborate with West as the program has become more established.

TABLE 7.3
West Company 1997 Budget

Source	*Amount*	*% of Budget*
Federal		
Forest Service	$50,000	15
SBA (OWBO)	7,500	1
State		
Redwood Empire SBDC	34,800	10
County		
Mendo County CDBG	69,647	
Fort Bragg CDBG	24,750	28 (combined)
Private		
Mott Foundation	61,613	
Ms. Foundation	55,024	
Share Our Strength	6,925	
Ms. Foundation	2,413	
Unrestricted Funds	11,050	
Reserve	10,965	
Wells Fargo	8,359	46 (combined)
TOTAL	$343,046.00	

Source: Data provided by program

Outcomes

West Company has served 1,108 clients since 1993. West defines a client as anyone who has received technical assistance. Table 7.4 illustrates the number of clients served in each of the last five years.

TABLE 7.4
West Company Clients Served 1993–1997

Year	Number of Clients Served
1993	218
1994	186
1995	154
1996	174
1997	376

Source: Data provided by program

Of the 1,108 clients served, 3 percent obtained loans and 11 percent started businesses. One hundred percent of the businesses West Company has helped were still in business one year later, and 80 percent were still in business after three years.

Business-related Outcomes

Of the 1,108 clients served in the past five years, 423 are in business. Of these 423, 126 have started businesses and 49 have expanded their businesses. West counts the remaining 248 as stabilized businesses, although some clients may have been start-ups that stabilized and then even expanded during this five-year time period. Of the 423 businesses served in the past five years, 267 were in the service sector, 87 were in retail trade, 33 were manufacturing businesses, and 25 were wholesale businesses. Twenty-four percent of these businesses have employees; they have created a total of 126 jobs. Sixty-three percent provide the primary source of income for their households. Thirty-nine percent of clients (168) had prior business experience, although not necessarily in their current line of business. The listing below provides a more-detailed breakdown of the businesses served in the past year.

Business Served by West Company, 1997

Manufacturing
Candles
Clothing/Costumes (3)
Hemp Products
Machines/Tools (2)
Skin Products / Botanics (2)
Wood Furniture and Tools (4)

Retail
Beauty/Skin Products (3)
Bicycles
Clothing (3)
Collectibles
Computer/Software/Accessories
Cosmetology
Crafts-Beads (2)
Farm Supplies/Saddlery (2)
Food (13)
Florist (3)
Gift/Greeting/Paper (4)
Jewelry
Restaurant (4)
Street Vendor
Variety Store/Specialty (9)

Service
Alterations
Answering Service
Building (10)
Communications
Cosmetology
Costume Rental
Editing/Writing/Self-Publishing (7)
Electrology
Engineering
Entertainment-Radio (7)
Event Coordinator
Financial-Accounting (4)
Service (cont.)
Food—Catering
Framing (3)
Graphic Design

Health-Fitness (2)
-Hypnotherapy (3)
-Martial Arts
-Massage (9)
-Providers (8)
-Training
Interior Design Consulting
Landscaping (3)
Leadership Building Consultants (2)
Legal (2)
Photography
Printing (2)
Real Estate (2)
Repair (6)
Sign Design and Manufacturing
Specialty Consulting
Transportation – Taxi Service (2)
Tourism: Lodging, Reservations (3)
Upholstering

Wholesale
Agriculture / Nursery (3)
Auto Supplies
Coffee
Building Materials
Leather Bags
Water—Bottled

Artists
Ceramic, Pottery
Paints, Drawings (8)
Studio, Instructors (2)
Supplies
Theater

Findings from the Client Side

Typical Client

Clients vary greatly in terms of their backgrounds, their businesses, and what they hope to get from West Company. Mendocino County is home to a large population of artists who need to support themselves but had not been pursuing that line of work because of its limited income-generating potential.

Currently, 5 percent of West Company clients receive public assistance. This percentage is likely to grow in the next couple of years as a result of the institution of the Business Resource Groups. Clients' average annual income in 1997 was $22,164. The majority of clients are between 39 and 48 years of age. Most have had some college. Table 7.7 shows the breakdown of clients by age.

Table 7.7
West Company Clients by Age

Age Range	*% of Clients in Range*
18–28	7
29–38	22
39–48	38
49–58	28
59–68	5
69 and older	less than 1

Source: Data provided by program

Two-thirds of West Company clients are women, reflecting both the initial women-only orientation of the program and the fact that the microenterprise strategy generally attracts more women than men. Sixteen percent of West Company clients are the heads of their households; the average household size is 2.6 people.

Definitions of Success/Client Goals

The West Company philosophy includes the belief that each client defines success for herself or himself. According to Rogers:

> Some people's success is opening a checking account or going into a bank and knowing what to do next. How to function in some kind of institution. Going back to school. It's very different for different people. [The] bottom line is are we helping people to start and maintain businesses and get income from those businesses. We have always felt that those who go back to work for someone else after West would be better employees. That is success, too.

Watson agrees that definitions of success vary a great deal: "Some people keep their income to a minimum for a variety of reasons, so that they don't have to pay taxes, or they don't want the paperwork."

West clients' definitions of success reflected their diversity. Many of those interviewed—in particular the artists—did not define success in monetary terms. Two of these artists—a ceramicist and a woman who makes greeting cards using her own photographs—have made decisions not to expand businesses that were potentially very lucrative. The ceramicist went through a process of getting her work shown and sold in over twenty galleries, and found that she spent all of her time filling orders and maintaining these gallery relationships. She also found that producing for the market did not allow her to grow as an artist. "If I just want to make money, all I have to do is make blue bowls," she said. The photographer has begun to sell her cards in large national retail outlets such as Pier One Imports. She has also been approached by companies who want to use her images on other items, such as posters, mugs, and calendars. However, she and her husband began their photography business to be able to work at home and care for their children, and she worries that if her business grows too quickly her lifestyle will change:

> I realized I needed employees, but I remembered that I didn't want to be a factory. And I have seen people lose their whole lifestyle. So can I keep the business small and still turn a profit? I'm not sure. But to allow myself to chase the big accounts means I would have to move to bigger space, it would mean employees and managerial stuff, and overhead. I'm not that kind of person.

A few of the clients interviewed have employees, and for these entrepreneurs, providing stable jobs is a big part of their definition of success. One client, who runs an answering service and started her ten employees at one dollar over the minimum wage, said:

> My goal hasn't been income for me. It is a stepping stone for the employees. The whole focus is on employees. Give them the opportunity to get skills so they are going up when they leave.

Many feel successful because they do quality work with which their customers are satisfied:

> [It's about] taking a project to completion, having people see it and feel good about it. I've had several people buy things that they really appreciate, and it is good to know that.

Other definitions of success include the following:

> I would define success beyond the monetary. Have enough money to pay bills and be recreational, help society out in general. I think having respect from people in the community, being a part of it and making enough money. That's how I would define success.

> Setting small goals and reaching them. I learned to write down small, manageable goals at West and the goals become more complicated as time goes by.

One woman, who runs an answering service, claims that her definition of success has shifted since starting out:

> For me it has always been being successful in business, making money, being top dog. But not so much anymore. Now it's more about balance.

Reasons for Pursuing Self-employment

Some of the clients interviewed left relatively stable jobs to pursue self-employment. One woman had a state job as a heart therapist, which she left to start a ceramics business. Another man got the idea for his business—constructing and selling redwood steps—after delivering hot tubs and hearing customers ask again and again if the company he worked for sold steps. His wife worked for a state congressman, and when the congressman lost the next election, she lost her job. The business now supports the husband and wife, as well as nine employees.

One woman, who has a history of mental illness and currently receives her income from SSI, is pursuing self-employment because her disability prevents her from working in a regular job:

> I do the work when I am capable of doing the work. Sometimes I can't focus. It has really disabled me from holding a job. In fact, I need to design my place in [the business] so that I can make a living even if I am not well.

A massage therapist whose children are ages four and six months explained:

> At this stage, with a family, it is easier. A lot of the work around my business is work I can do at home. Being gone from them for the massage sessions is minimal.

Another woman, a ceramicist, also turned her art into a career for family reasons:

> I left my husband and I had nothing. My daughter was not well. . . and I felt like I couldn't leave her alone after school, so I had to find something that was the same hours as school. She was my priority. I got welfare and immediately got into a training program. I did the training in a year and set up a ceramic studio and gallery in Mendocino.

Advantages/Drawbacks of Self-employment vs. Mainstream Work

Several of the artists interviewed never really considered pursuing mainstream work. Some patch together income from their art with part-time work that brings in a predictable stream of income. One woman, a ceramicist, cares for an elderly woman nights and does her art during the day. Others have found a way to make their art pay. The ceramicist who gave up a career as a heart therapist to pursue her art generates the bulk of her income by selling the tools and molds she developed for her own work. She is in the process of developing a line of funerary urns, a product that she believes would sell well. Recognizing and exploiting market niches that use her specific know-how has enabled her to generate enough money to live and enough time to pursue her art.

Even those who have freely chosen to follow their hearts rather than pursue a more stable employment route grew wistful at times about what they give up by not taking jobs in the mainstream economy:

> The security of working for someone else, just knowing you could pay your bills. That no matter how free anyone is, being insecure year after year, not knowing you will have money to buy stuff [gets old].

> One of the disadvantages is definitely that there are no benefits. If I want to offer my work to inns, I feel like I need to be there, so there are times when I work 14 days in a row. But then there are times when it is slow. There is always a pile of paperwork, too.

Relationship with West Company

The clients interviewed, with one exception, felt very supported in their relationships with the West business consultants. Many did not see themselves as "natural" entrepreneurs and thought that West Company helped them to understand and become comfortable with the business end of their business:

> It isn't my natural inclination. If I was strongly motivated, I could make a whole living at this. But artists' brains classically don't work like this. West was gently persistent in how to do things, and setting up a business plan. I didn't take 100 percent, but I took some of it, I go back to it. West is a gift.

> It put me on a different level in terms of approaching work. I am doing the same kind of thing, but somewhat better.

> I am an artist who doesn't deal with things I don't want to. I don't ever think I will be a shining example of a businessperson.
>
> My business consultant told me, "Don't think of this business as the supplement. Think of the old business as the supplement to your income." that was powerful advice. It changed my thinking from [getting my cards] into ten shops to [getting them into] 200 shops. I started getting bigger and bigger orders.

Many came to West for direction:

> I found out right away that it wasn't a good idea to just grow carelessly and indefinitely to the point that I was a factory. I don't have the means or the capital for that. And that's when I came to the West Company. To have that free consultation, to have someone to bounce ideas off of, is the most valuable thing. And I would not have paid for it. I couldn't have.
>
> I initially went to West for a loan, and because [my husband] was working too hard in the business. And then they made us write up the business plan. We had never done that. That was a big deal. We discovered our pricing was too low.

Some credit their relationship with West with more tangible gains, such as growth in the business or their ability to obtain financing:

> I don't think I would have been able to tackle the business plan by myself. Qualifying for a loan would have been beyond me. I would have been able to limp along, but to make this next big move, acquiring debt, wouldn't have happened.

For many, the support they gained from the people at West was the most important thing:

> I really didn't want to ask my family for money. I felt bad even asking [my ex-husband] to co-sign for me. I still have risked his $5,000. And when I went to present it to [the loan fund committee] I felt I was in over my head. And they were older, banker-type ladies, but they were so encouraging, besides just the loan. Every time I went there they were so positive. I kept getting acknowledgment.
>
> [With self-employment] you are living day after day, by your wits. Nobody is there if you have a screw-up with the manufacturer, no one is there to hold your hand. You are totally alone. To have somebody to go to for guidance and moral support is great.
>
> I just needed somebody else. Someone who understood. I can't get that from my friends and families. This is a whole new field for me.

According to Klein, "It's close, but not a personal relationship, which is appropriate. This is a small town, so you do have to be a little careful about the confidentiality issues. We want them to feel comfortable that we're keeping their information confidential." Indeed, one client told me that she had not shared some of her personal history with her business consultant because she was afraid it might not remain confidential and could ultimately threaten her business.

Goals for Business

The feasibility research that is part of West Company's curriculum helps clients to determine how workable their business idea is and whether it meets their individual goals. According to Klein:

> The same set of facts may work for one person and not for another. Let's say you can produce this much income, that may work for someone who has a long-term partner who is also bringing in income and she really doesn't want to go out and build a big business, that's not her goal. The next person comes in, with exactly the same business and figures, and this person has three children, all in school, and she needs to completely support her family. She has this great idea but she has to support a family, so it depends on her goals.

On the client side, those interviewed varied widely in terms of their goals. Few were very interested in high growth. One woman plans to upgrade the equipment in her answering service business in the next year, but hopes to sell it within five years. Another hopes to take her greeting card business and move it into new, more profitable market niches that would allow her to focus on the artistic aspect that she enjoys most while realizing larger profit margins.

Still a third is interested in expanding her business while maintaining a high-quality product:

> Keep up the personal service. Last year we sold 5,000 steps, and we want to sell more. We toyed with the idea of opening facilities around the country. Right now we need to perfect the product and pay good wages. We want people to be able to afford to work here, and to keep people through the winter.

What Makes West Company Unique

West Company is a relatively small program with a large area to cover. In order to accomplish its mission, the program has created strategic alliances with banks, government agencies, and other regional actors. West is not alone in its ability to creatively employ partnerships, but it is a noteworthy feature of the program. West Company has shifted from serving only women to serving women and men. This shift in target population is one example of the adaptability of this program. Another is the introduction of innovative program strategies that respond to new client needs, such as welfare-to-work programs and the implementation of Flexible Business Networks. It has demonstrated an ability to survive and to respond to changes in the political and economic climate of the area it serves.

Challenges

Many of the challenges West Company faces come from serving a very dispersed rural population. There are pockets of people in very remote parts of the county who need different services, and who may also have transportation issues. At the same time, the population is very diverse. West serves relatively recent Latino immigrants who have low language skills and college-educated artisans who have chosen to live in Mendocino County for lifestyle reasons. According to Watson, the toughest group to reach are those who are very low-income. Mendocino County is also home to the Round Valley Reservation, which is the second largest Native American reservation in the state and has an 80 percent unemployment rate. Staffers at West would like to work with this group, but the reservation is located in a remote part of the county, and resources are already stretched thin.

Another challenge involves tying together all of the policy pieces at the federal, state, and local levels. Keeping abreast of policy changes and accessing support for microenterprise have become increasingly complex as more actors have entered the arena. In addition, West Company is committed to working with welfare recipients and therefore needs to respond to welfare reform. Serving this population requires dealing with the range of personal issues that this group often brings to the table. It also requires utilizing collaborative relationships and referrals, which take time to establish and maintain.

The economic context within which West Company has always worked continues to be a challenge. West must work together with other economic development actors to bring environmentally sustainable businesses into the county.

Finally, Rogers believes that West Company needs to build a stronger board of directors, one that takes on greater responsibility for fund-raising and for initiating and putting into action new ideas.

8

Women Entrepreneurs of Baltimore

INTRODUCTION

Women Entrepreneurs of Baltimore (WEB) was incorporated in 1989 and ran its first training program in 1991, but it did not begin operating in its current incarnation until 1994. WEB was initiated by the Baltimore City Commission for Women after it analyzed various strategies to help the city's population of poor, female-headed households. At that time, 54 percent of all households in the city were headed by women, and 36 percent of them lived below the poverty line. Mayor Kurt Schmoke appointed Awilda Marquez to chair this commission. The Commission reached the conclusion that the city's poor women lacked a range of resources, including skills, contacts, capital, and support to improve their economic standing. WEB was designed to address every need the commission identified, and the program continues to focus on helping low-income women access a wide range of resources.

WEB is one of the majority of U.S. microenterprise programs that currently target women. It is the only microenterprise program operating in the City of Baltimore at the present time.

DEMOGRAPHIC AND ECONOMIC BACKGROUND

Economic Situation

Baltimore is a moderately large city in the Mid-Atlantic region of the United States. Historically, Baltimore's economic success was linked to its location as the most western Atlantic port. The development of the railroads allowed Baltimore to become a gateway to western cities. The first major rail line in the nation, the Baltimore and Ohio (B&O), connected Baltimore's port to Cleveland (and later Chicago) by the middle of the nineteenth century.

As the nation industrialized through the late nineteenth and early twentieth centuries, Baltimore looked like many other northern cities. Again, the dominance of its port allowed Baltimore to remain a strong economic center. The largest employer in Baltimore by the 1960s was Bethlehem Steel.

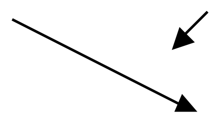

Figure 8.1 Map of Baltimore City and County

Beginning in the early 1970s, two factors led to Baltimore's economic decline. The first was the deindustrialization that occurred in most northern cities. By the 1980s, only a small percentage of its population was still employed in manufacturing. The second element was changes in shipping technologies. Containerized shipping, developing through the 1960s and 1970s, rendered Baltimore's port less and less viable. The new shipping systems required larger boats—vessels that Baltimore's harbor could not accommodate. Much of the commerce in Baltimore's port relocated to the deeper waters of Norfolk and Newark.

Today, Baltimore's economy is markedly different from its traditional industrial mix. The largest employer is Johns Hopkins Hospital System. As detailed below, high rates of poverty, unemployment, and a large number of service jobs characterize Baltimore City. Numerous redevelopment projects have been undertaken in Baltimore since the late 1970s. With varying degrees of success, they have all attempted to bring economic activity back into the city. The Inner Harbor waterfront redevelopment was nationally recognized, but was also criticized for failing to keep capital within the city bounds. In 1995, Baltimore was awarded one of six Empowerment Zones in an effort to foster comprehensive redevelopment, including the growth of locally owned businesses. While preliminary reports are promising, it is too soon to adequately judge the effectiveness of this federal program.

Demographics

The total population of Baltimore City declined markedly from the 1970 level of over 900,000 to just under 700,000 in 1995. According to revised Census Bureau estimates (1997), there were 177,353 people—25.4 percent of the total population—living in poverty in Baltimore City in 1993. According to the same report, there were 46,795 children aged five to seventeen living in poverty, representing 38.4 percent of that age group. In the same period, the statewide poverty rate was at 10.2 percent; the rate in suburban Baltimore County was 7.9 percent.

Baltimore's unemployment rate of 8.3 percent in 1995 was several points above the national average but below other Northeast cities. The Baltimore Metropolitan Statistical Area (MSA)—a region that includes Baltimore City and six outlying suburban counties—has had unemployment rates near the national average in recent years. Figure 8.2 illustrates both city and regional unemployment from 1990–1995.

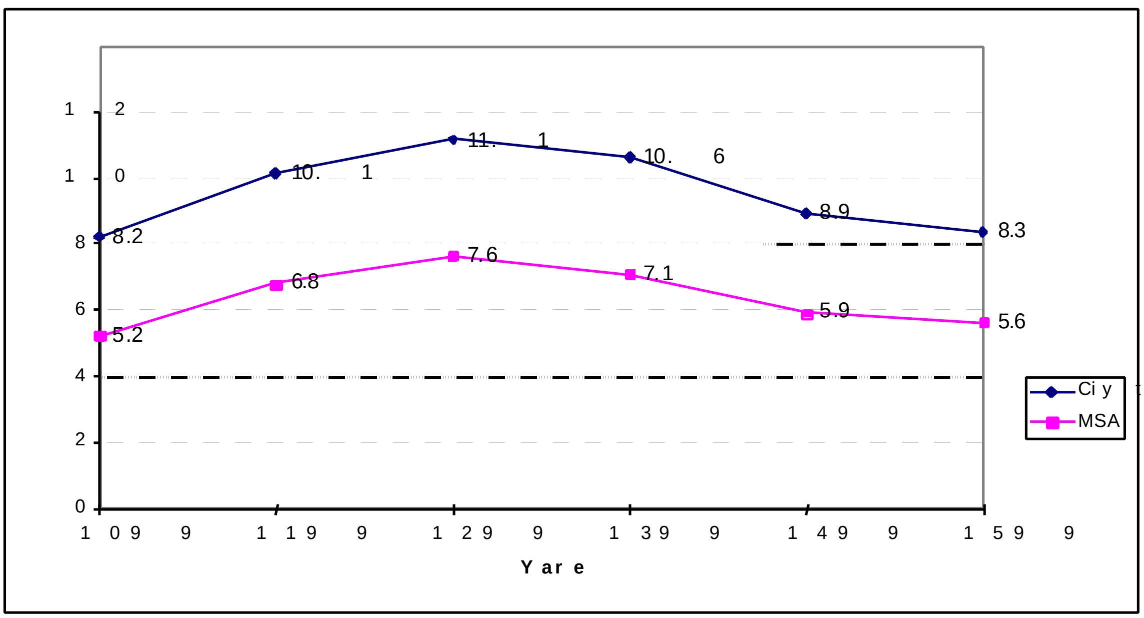

Figure 8.2 Baltimore City and MSA unemployment rates, 1990–1995
Source: Bureau of Labor Statistics

Baltimore City has experienced unemployment rates similar to those of the greater region. These aggregate numbers, however, do not reflect the sectoral differences in employment between Baltimore City and its surrounding metropolitan area.

Paralleling other industrial cities, Baltimore has witnessed a shift in employment from the manufacturing sector to the service sector. In 1995, 37.2 percent of earnings were in the service sector—compared with 27.2 percent just ten years earlier (BEA 1997a). Yet, the total number of jobs continues to decline in the city. According to the Bureau of Labor Statistics (1997), Baltimore City continues to experience a decline in jobs, even though the metropolitan region has witnessed moderate recovery from the most recent recession—recapturing in 1996 as many jobs as there had been in 1990. In this report, it was noted that average employment levels fell for the seventh year in a row, with a loss of 3,500 jobs in 1996. More than 70,000 city-based jobs disappeared during those seven years, a loss of one of every seven jobs located in Baltimore City in 1989. In 1996, the services industry was the only major industry to show more than incremental growth. The wholesale and retail trade suffered a substantial portion of the long-term losses of 48,100 jobs in the city. Trade lost nearly 31,000 jobs during the last ten years, mostly in the retail sector. In contrast, services gained nearly 21,000 jobs. To illustrate this new mix, Figure 8.3 shows the breakdown of jobs by sector in 1995.

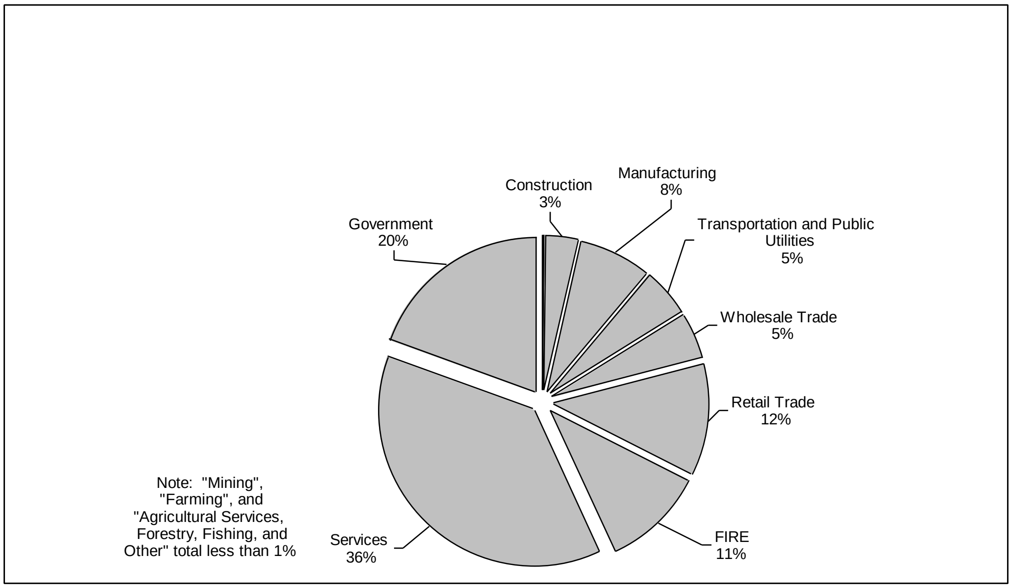

Figure 8.3 Jobs by sector, 1995
Source: 1996 County Business Patterns

Political Context

Baltimore City historically has been characterized by a very strong mayor's office and an often compliant city council. The city is divided into six councilmanic districts, each with three at-large council members. Baltimore is overwhelmingly Democratic, and other party candidates rarely win elected offices. The mayor is also elected at large, but it is often the Democratic Party primary in September that determines the mayoralty, not the November general election.

In recent years, Baltimore has seen two very strong—and very different—mayors. The current mayor, Kurt L. Schmoke, has embraced a far more community-oriented approach than his predecessor, William Donald Schaefer. Schaefer led the downtown-centered redevelopment that included the Inner Harbor retail development, the Maryland Science Center, and the Oriole Park at Camden Yards stadium. He was often accused of working solely for business interests. Such criticism has not been leveled against Schmoke.

The mayor's office indirectly controls economic development policy in the city. The agency charged with economic development is the Baltimore Development Corporation (BDC). The mayor appoints the BDC's president; in addition, the mayor's office has a dedicated individual acting as liaison to the BDC. The BDC is funded entirely by the City of Baltimore. It provides employment training, site location, financing assistance, and employee recruiting services to new and existing businesses within the city.

Baltimore was one of six communities to receive an Empowerment Zone (EZ) award in 1995. According to a 1997 HUD report, the Baltimore EZ is a "top performer" and has "made significant progress in each of its Strategic Plan categories."

The Business Empowerment Center (BEC), a division of Empower Baltimore, is becoming involved in both entrepreneurial training and lending. While plans are still evolving, three key programs have begun to serve these communities.[1]

A voucher program is being developed to subsidize entrepreneurial training and development for zone residents. Local village centers forward promising potential entrepreneurs to the Business Empowerment Center, where vouchers are granted to the best candidates. At present, the BEC has issued requests for proposals to contract with agencies to provide training for these entrepreneurs. The vouchers will pay for training through these outside agencies.

The BEC also has two loan programs. The first is an 80/20 loan program, which is designed to provide security for riskier borrowers, so that commercial lenders are more willing to invest. BEC grants loans to cover 20 percent (maximum) of a given project, up to $100,000 per borrower. The intention is that this backing will help secure the remaining 80 percent for the project.

A second loan fund, divided into four tracks, is being developed. The first track is for microenterprise loans (under $50,000). The second is for medium-sized loans of $50,000 to $500,000 and is intended to be a lender of last resort. The third track is an equity loan fund, and the fourth is a brownfield grant and loan fund. The microenterprise and equity tracks are not yet operating.

Public Support for Microenterprise

During the early 1990s, the Maryland Department of Business and Economic Development initiated a microenterprise program in Baltimore called Business Owners Support Services (BOSS). According to funders, that program failed miserably, largely because those running it did not understand the issues involved with running a successful microenterprise program. BOSS was initiated at the same time that WEB began its operations. The failure of the BOSS program has adversely affected the policy atmosphere for WEB, because of the perception among state and local policymakers that the microenterprise strategy does not work. According to Amanda Zinn, Executive Director of WEB, it continues to be a challenge to convince state and local officials that microenterprise development "is really a viable tool to help people enhance their income, personal development, gain important community leadership, and stabilize the neighborhood." Nevertheless, the environment is improving slowly.

DESCRIPTION OF CASE PROGRAM

Mission and Philosophy

The overriding goal of WEB is to provide entrepreneurial support to women, especially economically disadvantaged women, in order to help them become self-sufficient through self-employment. In order to accomplish this mission, WEB provides a range of support services, described below. WEB staffers understand the barriers faced by the population of women it

1. Information about Business Empowerment Center programs was taken from a phone interview with Roderick Simpson, 22 December 1997. Mr. Simpson is a business relationship manager with the BEC.

targets and endeavor to help women remove or surmount those barriers in order to increase their chances for success.

Methodology

Application and Screening Process

WEB runs three 12-week classes each year. Interested women apply to the program on paper and then attend a screening in order to compete for available spots. Screeners include WEB staff and volunteers from the community. WEB screeners place prospective participants in small groups and give them a business scenario to work with. Screeners observe the group and score each participant based on leadership, teamwork, viable business ideas, and communications skills exhibited. They then go through an individual interview, which is similarly scored. They must also submit a writing sample and take a math test. WEB further requires that all of those who are accepted have a viable business idea. According to Zinn, "The selection criteria have evolved as we recognize that we have to get tougher in our screening. We're trying to get entrepreneurial types to enter, not just anyone." Typically, between 60 and 90 people go through the screening process for each session, and 31 of these applicants are admitted to the program. The majority of these slots are reserved for low-income women. Once admitted to the program, the completion rate is fairly high.

Target Population

WEB targets low-income women. When the program first began operations, participants had to have an annual household income of less than $18,000 in order to be eligible. When current executive director Amanda Crook Zinn joined WEB in 1993, she recommended that the program admit a wider range of participants for three reasons. First, she believed that admitting women higher up the socioeconomic scale would help the program create more success stories faster. Second, she believed that there would be positive benefits to bringing a diverse group of people together. And finally, people who could afford to pay more for the classes would help to fund the program. Program board and staff subsequently decided to prioritize poor women and reserved 60 percent of the training slots for this group. Until very recently, WEB's classes were approximately 60 percent clients below the poverty line, 35 percent low-income, and 5 percent moderate income. It has become increasingly difficult to attract very low-income women, and WEB has now relaxed its program guidelines further.

Training

WEB is clearly a training-led program, and the most distinguishing feature of the WEB program is the intensity of its training component. All graduates have completed a 12-week course, in which they meet three times each week for three hours each time, for a total of 108 hours of classroom training. In addition, all participants meet with one of the trainers one-on-one two times during the course of the 12 weeks. Many spend additional time with trainers if they need extra help.

Once admitted to the program, participants must sign a partnership agreement that sets out the policies and procedures of the program. This partnership agreement covers the following areas: attendance; assignments; appointments; organizational responsibility; business plan and business start-up; graduation requirements; follow-up assessments and services; honoring diversity/harassment; drug-free and alcohol-free environment. Any participant who misses more than four classes is dismissed from the program. The partnership agreement emphasizes business start-up, and states that any graduate who has not started a business within nine months of completing the Business Training Course "may be terminated from the program and the benefits of the WEB support/development network." This emphasis is interesting—most training-led programs define success broadly, without focusing on business starts to the extent that WEB does. This focus on business starts has also evolved and is part of WEB's renewed commitment to performance measurement.

Participants sign the partnership agreement at the first class session. Their first homework assignment is to complete a business readiness questionnaire, which requires that they assess their own readiness and ability to start a business in the context of their current life situation. Questions encourage them to reflect on their strengths and weaknesses, their skills, and the range of other demands on their time that might affect their ability to work on their business.

This training builds the skills of participants because they are required to do a tremendous amount of work, most of which contributes to their business plan. All participants are required to produce a solid business plan in order to graduate. Participants produce the financial and projections portion of this business plan using a computer spreadsheet, allowing them to develop computer skills and build knowledge about accounting.

Lending

WEB graduates are eligible to apply for loans through two lending vehicles: individual loans and FINCA peer lending groups. WEB has made thirteen individual loans to date, and has also assisted two clients in applying for SBA loans. Overall, including peer-lending, a total of 65 loans have been made to 35 graduates. The average loan size is $1,182, with an average borrowing per client of $2,281.[2]

WEB provides group loans through its partnership with the Washington, D.C., office of FINCA.[3] WEB entered this partnership with FINCA in June of 1995 and has lent a total of $62,000 to the participants in these groups. Table 8.1 shows that the average size of the group loan is $1,265, with each participant borrowing an average of $2,480.

TABLE 8.1

Characteristics of WEB Group Lending

Number of Peer Loans	49
Number of Peer Loan Clients	25
Total amount lent	$62,000.00
Average loan size	$1,265.31
Average total borrowing per client	$2,480.00

Source: Program data

2. The two SBA loans are not included in this calculation, as they are significantly larger than the rest of loans. One was for $40,000, and the other $100,000.
3. FINCA is a community-based program that initiated peer lending in Latin America in 1984, and expanded its program to the U.S. in 1994.

WEB originally intended to launch three groups each year, one for each class, but has not been able to realize that vision because of insufficient client interest. Each group has between four and ten members. Members begin with a small loan of $500 and increase the amount that they borrow in incremental amounts of $1,500, $3,000, $4,500, and $6,000. This process, called "stepping," is employed by the majority of microenterprise programs that employ the group lending model, including Working Capital, one of the other cases included in this study. The stepping process allows members to test each other's creditworthiness safely before taking on too much undue risk. It also allows each member to become accustomed to taking on and paying off debt. The FINCA groups are one vehicle that WEB uses to sustain the relationships it creates during training after the training course ends.

Most of the WEB clients who belong to peer groups are happy with their experience. One woman, who bought software with her first loan, describes her experience as follows:

> For me, it's great. It teaches us the importance of making the correct financial decisions. Because you fill out a loan application and the process they give us is like you're actually preparing a loan package. And most of us if we didn't have FINCA, we'd just do it with no thought.

Others, however, have found that the model does not meet their needs. One woman, who joined a group but dropped out, reported:

> It was too slow for me. Also, I felt that my peers and me were not making good decisions about who should get a loan, so the risk was too great. I was afraid two of the women would not repay and that has actually happened.

Luckily, this woman had savings she could draw on to fund her business.

Relationships with Other Organizations and Institutions

Although the WEB program is dependent on external relationships, these relationships tend to be more with people than with institutions. For example, WEB has catalyzed a group of screeners who are volunteers from a range of government agencies, nonprofit organizations, small businesses, and other community-based groups.

The mentoring program has created a similar network of individuals who are attached to the program as a result of their one-on-one relationship with entrepreneurs. WEB keeps a list of people who are willing to serve as mentors, and program staff introduce them to participants who do not bring in their own mentors. The most formal inter-organizational relationship WEB has entered into is its relationship with FINCA, described above.

Changes in Mission and Methodology Since Inception

The basic philosophy of WEB has remained the same since the program started—mentoring, the close relationship with the caseworker, and resource-sharing were all built into the program. Recently, WEB has begun to focus more on performance measurement and revising the goals of the organization toward business starts. According to one Program Committee member, "As soon as you say you're there to create businesses, it affects other parts of the program. The screening will become more rigorous. We want people who want to devote themselves full-time and live off of their businesses." This focus on business starts, and specifically on the creation of businesses that can support families, is unique among microenterprise programs. Although all microenterprise programs would like to generate businesses that support families, many programs recognize and encourage a broader range of outcomes, including businesses that provide supplemental income and clients who choose to enter the labor market rather than pursuing self-employment.

Since this research project began, WEB has virtually doubled in size. Having been awarded Maryland's Self Employment Assistance initiative contract starting July 1998, WEB has doubled its budget and the number of staff it employs, moved to a location three times larger, and started serving twice as many clients all within a four month period. Although unusually dramatic, this scenario is a common challenge micro-enterprise development practitioners face - being flexible enough to expand and shrink as the funding ebbs and flows.

Funding

Current Sources

As mentioned above, WEB has recently experienced a dramatic growth in funding – a near doubling of the program's budget with a single contract. For the last complete fiscal year (1 July 1997 to 30 June 1998), WEB was funded by a mix of public and private sources, as shown in Table 8.2. All the public funds in this fiscal year came from federal sources – specifically SBA's Office of Women's Business Opportunity (OWBO). Private support came from a number of sources, with a large grant from the California-based Huron Foundation. According to Zinn, however, most of WEB's foundational support are small grants from local, family-based foundations in the Baltimore area.

TABLE 8.2

WEB Funding Sources, FY98

Source	*Amount*
Public	$170,304
Private	$133,837
Interest, fees, and other revenue activity	$21,298
Total	**$325,439**

Source: Program Data

Sources over the Last Five Years and Explanation of Changes

WEB is unlike most of the other case study programs in that the program's funding mix between public and private sources has remained about the same over the past five years, as illustrated in Table 8.3. In past years, WEB has also received public support from the Department of Health and Human Services (HHS). Private support has varied over time, based on grants from local foundations, according to Zinn. As mentioned, the new grant from the State of Maryland, as well as a pending JOLI application, will significantly alter WEB's funding mix in the future.

TABLE 8.3

Types of Funding, 1994 – 1998 (%)

Source	*FY 94*	*FY 95*	*FY 96*	*FY97*	*FY98*
Public	69.8	79.6	77.5	58.4	52.3
Private	27.6	17.9	17.8	36.6	41.1
Interest, Fees, and other Revenue Activities	2.5	2.5	4.7	5.0	6.5

Source: Program data.

Outputs

Number of People Trained

As discussed above, WEB runs three very intensive training classes per year. Generally, WEB aim to have about 30 participants in each class. As shown in Table 8.4, WEB's graduation rate has significantly improved over time. In sum, 374 clients have graduated from the classes, with an overall graduation rate of 76%.

TABLE 8.4

WEB Graduates, by Class

Fiscal Year	*Class*	*Total Entering*	*Number of Graduates*	*Graduation Rate*
FY91	1	12	8	67%
FY92	2	13	9	69%
	3	24	13	54%
FY94	4	28	22	79%
	5	28	22	79%
FY95	6	28	19	68%
	7	33	27	82%
	8	31	21	68%
FY96	9	29	24	83%
	10	31	23	74%
	11	32	28	88%
FY97	12	31	22	71%
	13	31	26	84%
	14	23	21	91%
FY98	15	29	24	83%
	16	30	20	67%
	17	29	25	86%
FY99	18	28	20	71%
Totals		**490**	**374**	**76%**

Source: Program data.

Number of Hours Spent on One-on-One Technical Assistance (TA)

In FY 98, 130 clients received one-on-one technical assistance, of which 73 were from previous classes. According to program staff, an average of four hours of staff time was spent per client to provide such service. This time does not include any “in-kind” benefits received from WEB volunteers (such as pro bono legal). In that same fiscal year, there were a total of 88 clients in classes (classes 15-17), who received formalized, classroom-based training. This means that 57 of these 88 clients received *additional* one-on-one technical assistance, beyond the training received in the classroom.

Outcomes

Number and Types of Businesses Started

According to a 1996 survey of graduates (Class 1 through Class 12), roughly two-thirds (68.9%) of WEB clients started businesses in the service sector. Table 8.5 gives a more detailed breakdown of the businesses started by WEB graduates, including graduates through Class 17. While a number are indeed in the service sector, they tend to be in higher paying fields, such as consulting or other business services. Here, as in our other case study programs, a number of graduates have started businesses in the Art/Crafts sector.

TABLE 8.5

Businesses Types of WEB Graduates

Business Type	*Number of Clients*	*Percent of Total*
Art	25	7%
Beauty salons and products	31	9%
Child care and products	20	6%
Cleaning services	17	5%
Clothing	44	13%
Construction and design	15	4%
Consultant		
Computer or Business	8	2%
Event Planning	7	2%
Financial	10	3%
Other	19	6%
Food (catering and manufacturing)	25	7%
Home care (adult and elder)	19	6%
Medical services	10	3%
Publishing	14	4%
Retail	41	12%
Transportation	5	1%
Travel Agency	5	1%
Word Processing	26	8%
Total	**341**	**100%**

Source: Program data.

Findings from the Client Side

Typical Client/Range of Clients Served

As discussed, WEB historically served low-income women. As shown in Table 8.6, and discussed above, that has changed significantly over time. WEB now serves a broader range of clients. All of WEB's graduates in the first three classes were poor, defined by WEB as failing to meet the HHS threshold at the time of intake. However, that has changed over time, and fewer clients are now below this threshold. In FY98, for example, only 23 percent of graduates were below the poverty line.

TABLE 8.6

Graduates in Poverty

Class	*Percent of graduates below poverty line*
1	100%
2	100%
3	100%
4	41%
5	59%
6	47%
7	48%
8	62%
9	54%
10	35%
11	36%
12	77%
13	42%
14	52%
15	42%
16	10%
17	16%
Cumulative Average	**49%**

Source: Program data.

The majority of WEB clients (73%) are between the ages of 30 and 50, according to a 1996 survey of graduates. It also revealed that 72% of graduates had either attended college, or were college graduates. This finding is consistent with our other case studies. A report written by Lori Aniti about WEB found that 81% of WEB's graduates were African-American (Aniti 1997). Aniti also found that more than 75% were without husbands (single, divorced, widowed, or separated), and 67% were the head of household.

Definitions of Success / Client Goals

For these clients, the definition of success depended on where they came from and how they perceived their business. One woman, who holds two part-time nursing jobs while also operating her balloon business, said:

> I haven't achieved all of my goals, but I've accomplished something. I'm in my 40s and I grew up in the Deep South. My parents were sharecroppers and I was the first of the whole family to go to college.

Another, who has avoided working in the mainstream economy for her entire working life, explained:

> I would like to be comfortably self-supporting in my business. I don't need to be super-rich. I believe in sustainable economies. If I can do something I love and be around people who make me happy, and make a living at it, that's all I need.

Another, whose business enables her to work around her illness, claims:

> As long as I can pay the bills, pay for medical insurance, stay medicated, I'm satisfied. I have no desire to be superwoman and have a chain of salons.

Yet another described her success in terms of the ways she believes her business contributes:

> It has helped me to give back to other people, which is very important to me. Being able to hire someone at $10 an hour feels really great. It's wonderful to be able to create good, thriving, fun jobs for other people. And my household financial situation is more stable now.

Reasons for Pursuing Self-employment

WEB clients, like clients of most microenterprise programs, pursued self-employment for a variety of reasons. One woman started her skin care and massage business because she suffers from chronic depression and could not hold down a full-time job:

> I would like to have a 40-hour-per-week job but I just can't, and people don't understand depression that's chronic like mine and that keeps me from working. So it came to a point where I could either work on my own, become homeless, or go on disability. Working on my own is the best option for me because I have to be here for my clients, but if I do have a bout of depression I can call them and let them know I'm sick. I'm not going to get fired.

Another learned to be an electrician so she could spend more time raising her children than her corporate job as an accountant would allow her:

> I was in corporate America and it was the '70s. For big business, it was supposed to be your job first and family second, and that didn't work for me. So I decided to learn a trade. I became an electrician because I thought I could have the kind of flexible schedule I needed.

One woman left the stable job she'd had at Social Security, accepting an offer that seemed more promising. When that company closed, she decided to try self-employment. Others are driven by their ideas and their products, as well as their desire to be their own boss.

Advantages/Drawbacks of Self-employment vs. Mainstream Work

Clients cited the following advantages of self-employment:

> I have more freedom to be creative. I don't have to answer to anyone. And it makes me feel good to make people feel happy with what I do.

> To me, working for myself is a spiritual quest. It has to do with what I can create, what I can learn about myself. It has to do with being on the edge, with not being safe.

> Flexibility to do what I want when I want to do it.

> I like the autonomy of being self-employed. I'm extremely motivated, so I can deal with having no set schedule. For me the discipline is knowing when to quit.

At the same time, they also recognize the disadvantages:

> Money. Sometimes it goes down. People come in and they want everything for nothing. Over the last few years I've learned what to give away and what not to give away. People don't always appreciate the skill it takes to do this work.

> [Lack of] security, sociability, self-discipline. Setting realistic goals. Also motivation and the lack of support. You need to find your own support systems.

> I don't make nearly as much money as I used to. Some clients don't take me seriously because I'm working at home.

Relationship with WEB

The training also serves to build a strong bond between participants and between participants and the program. Participants interviewed for this research often identified themselves as members of a particular class—"I'm from Class 9"—indicating that the program achieves the "groupness" it intends to achieve. In addition, the connection they feel to the program is strong enough that they continue to use WEB as a resource long after they have graduated. Some clients lose touch with the program when they are very busy with their business, but those who have stabilized sometimes return, often in order to give back to the program. One client claimed that she did not have time for WEB during the three years it took to get her cleaning business off the ground:

> For a long time . . . I divided myself between my business and my family and I cut out everything else extracurricular. Now that my schedule is a bit more free I'm starting to go back and do more with [WEB] again. Another woman who was in my class and I are revamping the whole mentoring program. . . . I've also gone in and accessed the business advisor.

In addition to the training, WEB serves as the catalyst for creating other kinds of relationships as well. WEB requires that each participant in the program have a mentor who can help her achieve her goals for her business. Some participants find their own mentors. One woman, who runs a very successful commercial cleaning business, had already established a relationship with the uncle of a friend, who was in the same business. He became her mentor for the program. WEB also maintains a list of volunteers and helps match participants with mentors when necessary. The mentoring program was established at WEB in order to institutionalize another layer of support that would extend past the end of the formal training. In practice, this aspect of the program is rather uneven. The client who does skin care and massage out of her home never really had a mentor. The woman WEB matched her with quit before they ever met, and she was not matched with anyone else. Another attributes much of the success of her bartering service to her relationship with her mentor:

> From the very first meeting, she has said, "Tell me about your business. How many clients do you have? How many appointments do you have?" She got me very focused with setting up appointments, closing deals, getting them to sign on. Some meetings we discuss how I'm doing on my goals. She got me set up with a bookkeeper that I do with barter. The bookkeeper gives me profit and loss statements and I bring them to my mentor and she helps me to understand them.

WEB also encourages graduates to form Success Teams, which are groups of graduates who meet regularly to lend each other support and work through the business issues each faces after program completion. A client who graduated from WEB nearly a year ago and belongs to both a FINCA group and a Success Team said the following about her Team:

> [W]e meet over lunch and talk about where we're at. And we've been talking about doing some investment kind of thing. And that way you can help a

> sister that needs help. So the follow-up of WEB is just as great as before in class.

WEB also maintains a network of professionals, such as lawyers and accountants, who will work with graduates on a pro bono basis. Many microentrepreneurs need periodic legal and financial help but cannot afford professional services or to keep experts on retainer. Without WEB, many would not recognize the necessity of obtaining this kind of help, and they certainly would not have access to free services. Some graduates have gotten to a point where they can afford to pay for these services.

Several clients asserted that participating in WEB helped them take their business to a new level:

> I had no idea what I was doing. I wasn't paying sales tax, I was just taking cash and working completely undercover. So I found out what I could and couldn't do, how to do bookkeeping, how to make it legal.

> I don't think I would be in business right now if I hadn't gone to WEB. The scariest thing is taking that first step. We needed to write our business plan and get going.

Some claim that they continue to use WEB as a resource when issues arise:

> Whenever I need advice on what to do next or whether I should take a step, I call WEB. They help or give me the number of someone who can. When you're out there, you're all alone, and there are people out there who are crooks and will steal your ideas. So it's important to have a place like WEB to go.

> I got a list of resources, places I can go. There's this thing that Henry Ford said when he was being sued for something. He was asked a question he couldn't answer and he said, "I can't answer that, but I have six telephones on my desk and I can pick one up and talk to someone who can." WEB gave me Ford's six telephones.

Another woman went to WEB even though she already had an MBA. WEB helped her with her business plan and with her support network:

> I knew a lot of these skills, but you don't have that closeness, you're not meeting a whole lot of people. And once you leave school that's it. But with WEB, we come back, we do success teams, we talk about where we're at. I had a business plan when I went there. But I was able to shape it and mold it and now I know that it's not a forever thing and it always changes, and I'm getting ready to change it again.

Goals for Business

Clients' goals for their businesses ranged from selling the business to expansion:

> Mostly just staying in business. Keeping it going. I love where I am right now, but maybe when I can afford it I could see getting a shopfront that's already zoned properly.
>
> I'd like to be out of nursing and spend all of my time on the business.
>
> I'd like to sell it. That's why I'm doing a lot of marketing right now. I really thought about all of the possibilities, even selling 49 percent and keeping the controlling interest, but I decided the best course of action is to pull out. What I want to do next is be available for my family.

A few have gotten their businesses to a place they are comfortable with. They work as much as they want to, make enough money, and do not want to hire employees.

What Makes WEB Unique

The clear strength of WEB is its intensive training program. Participants who complete the program take their businesses more seriously than when they started. The training program also provides them with skills that not only help them run their businesses but are useful in understanding the economy.

Many of the women interviewed spoke of the discipline they had learned from WEB. In completing the program, they were required to do all the work necessary to write a solid business plan, and completing the business plan opened up other avenues for them that they might have been unable to access on their own. Jessica, who does seminars on communication, time management, and diversity for corporations, claims that she would not have gone into business without WEB:

> I wouldn't have done the business plan without it. We [she and her husband] had checked all sorts of books out of the library but we never wrote down a word and the books went back. So I really needed that discipline. And research, we did a lot of research.

She became so motivated to succeed that halfway through the course she quit her job in order to devote her energy full-time to her fledgling business. One year later, she has more work than she can manage, and her husband/business partner intends to quit his job within six months so that both will be full-time employees of the business.

The client with the cleaning business claims that the business plan she wrote with WEB enabled her to obtain a loan, which she needed in order to expand her business. Similarly, the woman who does skin care claims that going through the WEB program gave her access to the health insurance she needed:

> [B]ecause I did the WEB class and learned to run my business legally and properly, I was able to get insurance. I needed to have the evidence [that I was self-employed] to get the insurance, and I wouldn't have been legal without WEB. And they cover preexisting conditions.

For this woman, who suffers from chronic depression, the treatment and medication available to her are what makes it possible for her to function in the world.

Program Challenges / New Directions

WEB was initiated with a mandate to serve very low-income women and women in poor communities. In recent years, fewer women from this socioeconomic group have attended the screenings. Staffers cite the departure of the program's community organizer as one key reason the program has had trouble attracting this client group. The job of the community organizer was to go out into the poor neighborhoods and recruit people for the program. WEB is in the process of reorganizing the program and plans to hire a community affairs manager in the next six months. The new person will have the responsibility of adding to the range of groups WEB partners with, both in the neighborhoods and in the corporate community.

WEB staff are primarily white, though serving a primarily minority clientele. This has created some tensions between staff and clients. Staff members cited the diversity of the client base—in education level, economic level, and racial background—as a major challenge. Diversity, although it adds a dimension to classes that program staff value, continues to be an issue that has the potential to divide clients and to create distance between clients and staff. Since this research project began, WEB formed a Diversity Task Force which has planned for a consultant to provide diversity training to WEB's stakeholders (board, staff, volunteers, graduates and current participants). This consulting firm will also provide *train the trainer* sessions so WEB will be able to continually provide this training as new stakeholders cycle in. According to Zinn, "This initiative became even more critical since the State contract as the people we serve under that contract are demographically quite different than our traditional target market."

The other challenges WEB faces have to do with funding and measurement issues. These challenges are common to most microenterprise programs—indeed, most nonprofit organizations. Zinn notes, "In the past we have had a federal grant which was renewed but there was a three-month period between funding cycles. It presents quite a challenge to be able to maintain even service delivery and staffing pattern with uneven funding tides." To meet this gap, WEB has secured lines of credit to ensure operational stability.

The program also requires staff who are relatively highly skilled, yet the budget does not allow for sufficient compensation. According to Zinn, "Some of our staff are really stressed out, overworked, and of course, underpaid. . . . That's fine for a while, but if you keep squeezing these people and want them to do more, they will leave."

As for evaluation, WEB sees measurement as an issue that goes hand in hand with funding. "Foundations, government, the private sector—nobody is giving enough money, but that's because nobody believes it's actually achieving results." Recognizing this, WEB has made a renewed commitment to justify the work of the program by measuring the work done and proving that it does produce results.

9

Women's Economic Self-Sufficiency Team (WESST corp)

INTRODUCTION

The Women's Economic Self-Sufficiency Team (WESST corp) primarily serves women and minorities in the state of New Mexico. One of the poorest states in the nation, New Mexico has a long history of self-employment by rural residents trying to support their families. By providing training and lending, WESST corp hopes to better educate its clients in formal business activities and help them achieve self-sufficiency through self-employment.

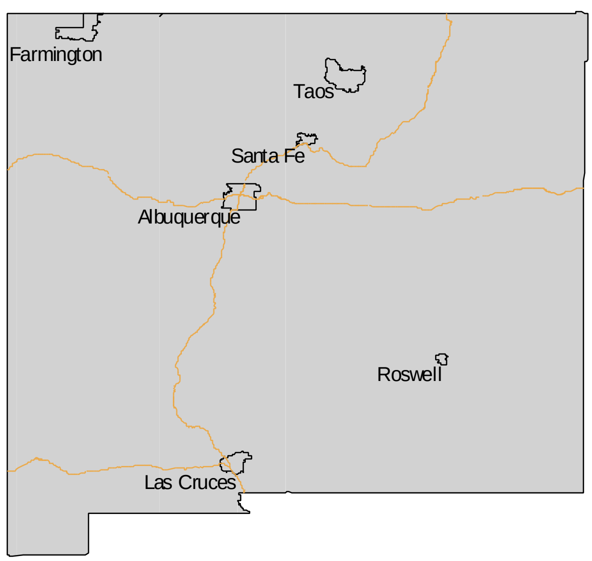

Figure 9.1 Location of WESST corp offices

Note: WESST corp is headquartered in Albuquerque.

DEMOGRAPHIC AND ECONOMIC BACKGROUND

New Mexico (Figure 9.1) is the fifth largest U.S. state in terms of size. Of its 1.7 million residents (New Mexico is 36th in population in the United States), more than 55 percent live in the metropolitan Albuquerque area. The remainder of New Mexicans live in poor, isolated, rural communities, with the exception of a few small, wealthy pockets, such as Santa Fe and Los Alamos. This section outlines some of the major social and economic indicators for the state.

New Mexico has one of the youngest populations in the country, with nearly 30 percent of residents under the age of 18 (fourth highest) and only 11 percent over the age of 65 (sixth lowest). New Mexico ranks first in the percent of population below the poverty line at 25.3 percent (1995). Only 58 percent of the labor force is employed, giving New Mexico the third-worst ranking among states. The February 1998 unemployment rate was 6.2 percent. While that is down from 7.1 percent in February 1997, it is still significantly higher than the national rate of 4.6 percent. Figure 9.2 shows historical unemployment trends in New Mexico from 1975 to 1993. Note the significant difference during the 1980s between a national trend of lower unemployment and rising unemployment in New Mexico.

Historically, the major employers in New Mexico have been the national laboratories—the largest being those at Los Alamos and Sandia. According to Markusen et al. (1995), Los Alamos, Sandia, and related Department of Energy activities directly account for 19,000 jobs and $1.75 billion of annual spending in the state of New Mexico as of 1995. Including multiplier effects, they generated nearly $7.2 billion in regional economic activity and account for 60,000 of the region's jobs, or 15.4 percent at that time. More recent economic impact statistics reflecting the downsizing at the labs have not been computed.

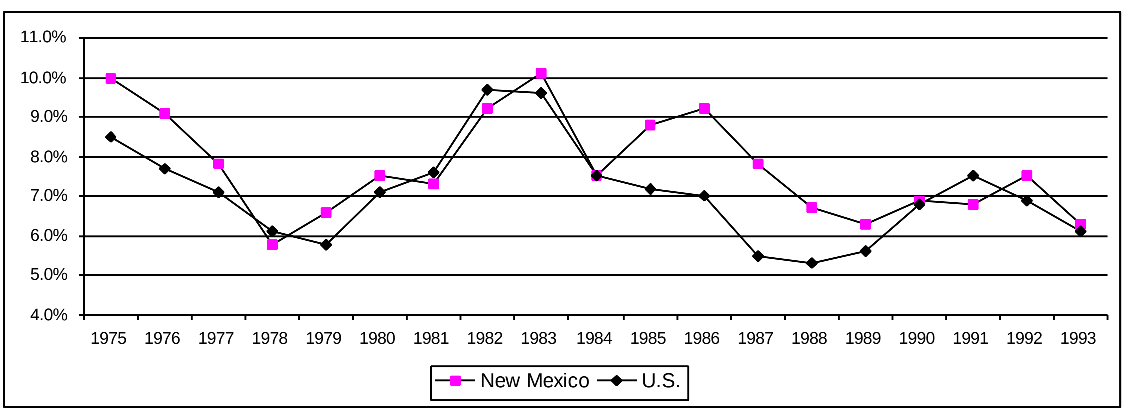

Figure 9.2 Unemployment trends in New Mexico and the United States, 1975–1993
Source: U.S. Bureau of Labor Statistics

Markusen also finds that the labs have contributed to the formation of a dual economy in New Mexico:

> Their large contingents of well-paid scientists and engineers, recruited in the main from other states and nations, do not mix well with the traditional populations of New Mexico: Hispanics and Native Americans. The latter communities occupy few of the better-paid jobs at the labs. Education and employment opportunities remain very poor despite proximity to the labs.

Although the manufacturing sectors have been able to absorb some of the recent cutbacks at the labs that were the result of the end of the Cold War, there has still been an adverse effect on the economy.

The other major component of the economy historically has been the mining and extraction industries. However, those sectors have been in a long period of decline after some strong years in the late 1970s. Increases in retail and services follows national trends, but are also due to the state's increasing emphasis on promoting tourism as an economic development strategy. According to the New Mexico Economic Development Department as of February 1998, the manufacturing sector was up 2 percent over the previous year—a total of 900 jobs. However, a downsizing at Intel and the closing of two Levi-Strauss plants in Albuquerque and Roswell will have a significant impact on future manufacturing growth. Additionally, Phillips Semiconductor and Motorola have recently announced layoffs in Albuquerque.

DESCRIPTION OF CASE PROGRAM

History, Mission, and Philosophy

The Women's Economic Self-Sufficiency Team (WESST corp) was established in 1988. "It was really started by three key women who looked around the state and saw that there was nothing targeted to women, in terms of business assistance," recalled executive director Agnes Noonan. That first year, WESST corp was included in a funding proposal submitted to the SBA's Office of Women's Business Ownership (OWBO) by another microenterprise organization; WESST corp would be "kind of like a satellite office." After six months of that association, WESST corp split off and applied for funding on its own.

WESST corp stayed focused in Albuquerque until 1991, when it received a grant to open branch offices in Taos and Santa Fe. Today, while still based in Albuquerque, WESST corp operates regional offices in Farmington, Las Cruces, Roswell, Santa Fe, and Taos (Figure 9.1). WESST corp is one of only a few microenterprise programs in the state, and the only one specifically focused on the needs of women.

The mission of WESST corp is to "facilitate the start-up and growth of women- and minority-owned businesses" throughout the state of New Mexico. Because of this orientation toward serving women, WESST corp has identified three key issues that impact the ability of women to succeed in business, and has incorporated these issues into its programs: self-esteem, financial literacy, and balance.

Executive Director Noonan describes WESST corp's philosophy as one of self-motivation and self-initiative. "We work with lots of clients who are dealing with lots of life issues, more than just getting a business started. And we can help them with all of that, but the passion and commitment have to come from them." Our field research sheds some light on those problems: several clients we interviewed were engaged in divorce proceedings, and one was trying to move out of a shelter and rebuild her life by starting her own business. "We do a lot of hand holding," Noonan noted. "It's interwoven into everything we do. But if you're willing to do what it takes, we're willing to help you 110 percent."

Methodology

Application and Screening Process

Telephone or walk-in contact generally initiates a client's relationship with WESST corp At that point, according to Noonan, "we gauge where they are in the business process, whether they are just thinking about starting a business, or if they have a well-thought-out business idea, or if they are serious about writing a business plan and working on those kinds of details."

Clients at the first stage—thinking about starting a business—are encouraged to attend WESST corp's Making the Transition workshop. This three-part, six-hour workshop covers personal development and general business-planning topics, and allows the client to determine "whether this may be for them," according to Noonan.

Noonan notes that existing businesses usually come to WESST corp with specific needs. In those cases, consulting appointments or referrals are made. WESST corp also has a consulting program staffed by volunteers—local individuals or firms that offer their services to WESST corp clients. Often volunteers are lawyers, accountants, or other such professionals.

Target Population

As stated above, WESST corp's target population is women and minorities throughout the state of New Mexico. It should be noted, however, that WESST corp has a mission to serve all New Mexico residents, and that includes men as well.

More than one staff member noted that WESST corp historically had an "Anglo face" in the communities it served. In response, WESST corp has taken positive steps to encourage more minority participation in its programs. It offers an entrepreneurial training curriculum entirely in Spanish, and is currently under contract with the City of Albuquerque to provide such training in targeted neighborhoods. Attempts have also been made to diversify the program's staff.

The Taos regional manager, Dawn Redpath, worked toward this goal in seeking participant entrepreneurs for the Access to Markets demonstration, funded by the Mott Foundation. "The population here [Taos] is 65 percent Hispanic, 15 percent Native, and 20 percent Anglo, so I made sure that we came close to those numbers with the firms for the Mott project," she noted.

Training

In terms of training, WESST corp offers three distinct services. Its first role is in its business consulting, which consists primarily of one-on-one technical assistance to start-up or existing business owners. In the more rural sections of the state, one-on-one technical assistance comprises most of the training provided by WESST corp.

The second component is WESST corp's Training for Business Series. Clients are directed to the appropriate training series according to their specific needs. The three week "Making the Transition to Self-Employment" series is targeted to those individuals in the "idea stage" focusing on personal assessments, strengths & weaknesses, and goal setting. A critical component of the training series is the five week "Business Plan Work Group" which offers a hands-on opportunity to clearly develop a business plan. This series is utilized by start-up businesses who may need funding as well as existing businesses who need assistance interpreting the current status of their business. In general, training topics include financial literacy, sales and marketing, communication skills, and choosing accounting, legal, and insurance services.

The third component is a series of ongoing business workshops. WESST corp has developed a network of volunteer trainers who offer their services to WESST corp clients. As mentioned previously, this may take the form of a referral for specialized services. In addition to such consulting, these volunteers offer their time and expertise to teach seminars. Recent session titles included Organizing Yourself & Your Business, Marketing on a Shoestring Budget, The Secrets of Powerful Networking, and Basics of Bookkeeping.

One WESST corp client interviewed for this project also facilitates a workshop. When she began her bookkeeping business, she needed loans for a computer and other start-up expenses. She went to WESST corp for technical assistance and these loans. Now, she shares her knowledge as a bookkeeper with other WESST corp clients.

Lending

WESST corp operates a loan fund that makes small loans to those unable to access traditional credit markets. The maximum loan size is $5,000, and the funding is generally available only to those who cannot obtain other financing. WESST corp notes that the ultimate goal is for loan-fund recipients to become bankable through traditional credit institutions.

In the past five years, WESST corp has made 101 loans, as shown in Table 9.1. The average loan size was $2,640.

TABLE 9.1
Number and Size of Loans, 1993–1997

Year	*Number of Loans*	*Total Amount for the Year*	*Average Loan Size*
1993	23	$54,226	$2,358
1994	17	$38,760	$2,280

1995	13	$44,861	$3,451
1996	20	$58,743	$2,937
1997	28	$70,054	$2,502

Source: Program data

For WESST corp clients with larger loan needs, the New Mexico Community Development Loan Fund provides loans of up to $50,000. (The relationship between the Loan Fund and WESST corp is discussed in more detail in the next section.)

According to Vangie Gabaldon, executive director of the New Mexico Community Development Loan Fund, the Loan Fund was started to provide additional sources of credit to rural New Mexicans:

> The reason that a loan fund was chosen was that the research showed that poor people, people of color, didn't have access to capital—especially in the rural areas of the state.

The Loan Fund, started with a $50,000 loan from a women's religious order, was originally a housing lender. It was quickly realized that the fund could be more effective as a lender to businesses. As Gabaldon notes, they saw the gap between the financing provided by WESST corp and by the SBA:

> At the time, we saw a gap between what the microlending like WESST will do, and the SBA loans of $50,000. So we decided to concentrate our efforts to this niche. And we targeted things like arts and crafts, farming, some retail—really any innovative projects that supported the community as a whole.

Currently, the Loan Fund has a total of $6.8 million available, and is now revisiting the idea of affordable housing—but in innovative forms; a current proposal is to build straw housing in southern New Mexico. The Loan Fund also acts as an intermediary funder to community nonprofits, and was certified as a community development financial institution (CDFI) by the U.S. Department of Treasury last year.

Relationships with Other Organizations and Institutions

As just discussed, the New Mexico Community Development Loan Fund is a resource for WESST corp clients with larger capital needs. In terms of formal collaboration between the two organizations, the first such project was a joint field office opened in Roswell. Speaking about the Roswell office, Gabaldon noted:

> We do some joint training, and we've provided TA [technical assistance] for each other's clients. And when someone comes to us and needs to write a

> business plan, we'll send them to WESST. When they have someone who needs work on financials, they send them to us, and draw on our strengths. I'd say that there have been three or four clients in Roswell that had larger capital needs, and were referred to us by WESST.

Another of WESST corp's major collaborative efforts is with the City of Albuquerque. The City utilizes repayment proceeds from UDAG funds for housing and economic development programs in the previously designated "pocket of poverty" in the city. Microenterprise was included as part of the first two-year plan for those funds.

According to Sylvia Fetes, program specialist for the Department of Family and Community Services in Albuquerque, WESST corp was given a $300,000 grant for a revolving loan fund to be used in this neighborhood. They also received a $75,000 contract for two years of entrepreneurial training.

> Albuquerque is probably not unique in the national experience, but we have a large number of immigrants who seem more predisposed to entrepreneurial activities. WESST corp was able to develop and present a curriculum entirely in Spanish, which was a good benefit, making training available for this group of citizens who would not normally have access to it.

In addition to the above program, the City of Albuquerque has contracted with both WESST corp and the New Mexico Community Development Loan Fund to work together in two particular neighborhoods. With $258,400 in South Valley and $400,000 in La Mesa/Trumbull, the City has arranged with WESST corp to provide entrepreneurial training, and with the Loan Fund to manage the loans.

Fetes notes the importance of what the programs provide to the city:

> We really see a gap between what small business sometimes needs, and what the traditional capital market provides. $50,000 is their definition of a small business loan. It fills an important gap. WESST corp and the Loan Fund have been able to leverage traditional and private funds to capitalize these loan funds.

Seeing this gap, the City at one time had engaged in direct lending to businesses. However, as Fetes noted, this program was ended in 1995. "A political entity engaging in direct lending is not always the wisest. It's much better for the City not to be involved with that."

WESST corp also receives a fair amount of federal legislative support for microenterprise and other small business activities in the state. One example is the recently introduced Program for Investment in Microentrepreneurs Act of 1998 (S.2190). This legislation would make additional funds available for technical assistance for microentrepreneurs. It was cosponsored by both of New Mexico's senators—Domenici and Bigaman. Senator Domenici has also demonstrated his direct support for WESST corp. Last year, he met with WESST corp clients and staff in Taos to discuss their work on rural entrepreneurship.

Changes in Mission and Methodology Since Inception

According to Agnes Noonan, the mission of WESST corp has not changed since its inception. However, she does note that fulfilling that mission has taken on added importance since she became executive director.

Most significantly, that means outreach to minority residents. “WESST corp said it was targeting low-income women and minorities,” notes Noonan, but it had a white-Anglo face internally, and that was its reputation, also.” As mentioned above, WESST corp has taken steps to diversify its staff, as well as reach minority communities. Noonan noted:

> We really had to start and continue an evaluation of whether we are serving who we are targeting. As a service provider, we could be busy all the time being reactive, instead of proactive. So that needed to change. . . . Our latest stats are that we have 50 percent minority clients, a significant improvement over the 20 percent it was five years ago.

Funding

Like most microenterprise programs, WESST corp relies on a mix of public and private sources for funding. Table 9.2 shows this distribution for 1997; Table 9.3 highlights some major funding sources for 1998.

TABLE 9.2
Types of Funding, 1997

Type of Funding	*Percent of Budget*
Private	34%
Federal	42
State	12
Fund-raising/other	18
Fee for service income	4

Source: Program data

TABLE 9.3
Major Funding Sources, 1998

Source	*Amount*
Private	
C.S. Mott Foundation	$70,000 ($150,000/3 yr.)
Levi-Strauss	$35,000
NationsBank Foundation	*Pending*
McCune Foundation	*Pending*
BankAmerica Foundation	$25,000
American Express Foundation	*Pending*
Public	
City of Albuquerque	$130,000

SBA-OWBO	$180,000
SBA-OFA	$40,000
Other NM State	$50,000
Other sources	
NM Women's Business Conference	$75,000 to $100,000
NM Community Foundation	$15,000
Interest (loan activity)	$30,000
Earned income (consulting, training)	$7,500

Source: Program data

At the federal level, the U.S. Small Business Administration's Office of Women's Business Ownership (OWBO) provides funding for WESST corp. Other public money includes the contract mentioned above with the City of Albuquerque.

In terms of private support, WESST corp is a participant in the Mott Foundation's Access to Markets program. The Levi-Strauss Foundation has been a major supporter of WESST corp in the past, but that support is in jeopardy as the company has closed both its factories in the state. Both BankAmerica and NationsBank have also supported WESST corp

Noonan expressed the difficulty in accessing private sources of funding:

> There aren't many corporate headquarters in New Mexico. It's real hard to raise money at the corporate level here—and that's something you take for granted in a place like New York. So what the local folks have to give us at all is a trickle.

WESST corp is also trying to generate income through some revenue-producing activities. For the past three years, they have hosted the New Mexico Women's Business Conference. Noonan stated:

> While the conference has a programming objective, there's a fund-raising one as well. We're looking for some corporate support for it—corporations are comfortable supporting conferences, and they seem to be more willing to buy into it. This year, we're hoping to generate $50,000 in proceeds.

Noonan sees this conference possibly expanding into a regional (Southwest) event, if they can line up some national sponsorship. The idea of looking beyond traditional financing mechanisms has been new to WESST corp in the past few years.

Outputs

Number of People Trained

WESST corp defines a client as an individual who receives six hours or more of services, be that training or one-on-one technical assistance. Over the past five years, WESST corp reports having served 1,500 clients. An additional 4,000 individuals received some training, but not enough to be considered clients. Most often, these are women who attend a workshop, but receive no other service from WESST corp.

Eighty-two percent of clients who start working with WESST corp "graduate"—that is, they complete the basic training and technical assistance programs offered. Sixty-nine percent of clients complete a business plan.

Number of Hours Spent on One-on-One Technical Assistance (TA)

When asked to estimate the number of hours spent on one-on-one TA, WESST corp staff stated that it was almost impossible to give an accurate answer. However, they estimate that between ten and 12 staff hours are expended per client.

Number of Referrals Made and to What Organizations

The exact number of referrals was also unknown. As discussed more completely above, clients with larger financing needs are often referred to the New Mexico Community Development Loan Fund. Noonan also noted that there is a network of Small Business Development Centers (SBDCs) in the state.

> The relations are better in some places than others. We do some joint work, and make some referrals, but again, that depends on the area. It's a collaborative relationship usually. Some SBDCs see us as a competitor, but we're serving different clients. We've identified our niche, and we're happy with it.

That niche is women and minorities who have poor access to traditional business training and resources. The SBDCs in New Mexico tend to serve individuals who have fewer of these obstacles.

Outcomes

Business Start-ups, Stabilizations, and Expansions

For 1997, WESST corp reports that there were 51 business start-ups, of which 14 utilized the program's loan fund. Information on the number of business stabilizations was not available, but the program notes that an additional 179 businesses were served by WESST corp during the same year.

Job Creation

WESST corp reports that 28 percent of the businesses in the loan portfolio and 20 percent of the general client database have employees—meaning that the business employs someone in addition to the microentrepreneur. The program also reports that 70 percent of the businesses in the loan portfolio provide the primary income for families.

Types of Businesses Started

As shown in Table 9.4, the majority of businesses served by WESST corp are in the service sector. There are also a large number of artists and craftspeople served. This seems to be the case particularly in the smaller towns and rural areas served by WESST corp Our field research in Taos and Las Cruces revealed a large number of such businesses. One artist noted, however, that "there are way too many artists in Taos for anyone here to support them."

TABLE 9.4
Breakdown by Business Type, 1997

Type of Business	*Loan Portfolio*	*Client Database*
Retail	32	57
Service	49	96
Wholesale	5	7
Manufacturing	3	8
Arts/Crafts	12	21

Source: Program data.

The average gross sales for businesses served by WESST corp is $13,704, with a range of $150 to $68,400. Profits per business average $7,267, with a range of $100 to $59,157. Such wide ranges are due to the various types of businesses engaged in by WESST corp clients—from small crafts sold in addition to other waged employment to full-time manufacturing operations. Table 9.5 lists the 51 businesses started in 1997 by WESST corp clients.

TABLE 9.5
Businesses Started in 1997

Adult education	Coordinating weddings	Housewares made from natural materials
Alterations	Correspondence course	Import home furnishings
Artist and art galleries (2)	Consultant, facilitator, international mediator	Incense, oils, lotions
Astrologer, psychic line	Consultant, management	Insulation
Crafts (4)	Corporate training videos	Jewelry (3)
Beauty products and salons (3)	Dried floral wreaths	Legal nurse consultants
Business products and services (2)	Educational publishing	Office organizer
Cabinetmaking	Environmental consulting, training	Oil paintings
Catering	Food, manufacturing salsa	Secretarial service
Clay storytellers	Gas, heating, plumbing	Sports equipment (used) and recreation information center
Cleaning service	Gift gallery	T-shirt design
Clothing, hand-painted children's	Healing touch, psychotherapy	Tattoo artist
Commercial construction	Health care/training	Vending (ice cream)
Computer training, installation		Web and print design, corporate identity, and direct mail
Consignment, clothes		

Source: Program data.

Findings from Client Side

Typical Client

As discussed in detail above, WESST corp's target populations are women and minorities throughout the state of New Mexico. In recent years, the program has made efforts to diversify its client base, as well as its program staff. Currently, approximately 48 percent of WESST's clients are minorities, and 90 percent are women. Table 9.6 shows the racial breakdown of clients.

TABLE 9.6
Racial Breakdown of Clients

Race of Client	*Percent*
African American	4%
Anglo-American	52
Asian	1
Hispanic	26
Mexican American	3
Native American	8
Other	4

Source: Program data.

WESST corp clients also tend to be low-income. As illustrated in Table 9.7, 38 percent of clients come from households with less than $15,000 in annual income. Only 14 percent report annual household incomes above $30,000. While the program doesn't specifically target low-income clients, its mission to serve women and minorities in this poor state has led to that outcome.

TABLE 9.7
Household Income of Clients

Annual Household Income	*Percent*
Less than $15,000	38%
$15,000 to $19,999	7
$20,000 to $24,999	5
$25,000 to $29,999	12
$30,000 to $39,999	4
$40,000 to $49,999	3
$50,000 and over	7
No answer	23

Source: Program data.

Definitions of Success/Client Goals

Many of the WESST corp clients interviewed for this project expressed self-sufficiency as their primary goal. One client simply said, "When I'm able to have a working day every day and orders going out and bills paid—that is success for me." Another man operates a fire equipment inspection business, and expressed his goals this way:

> Making my business grow is all about getting enough accounts. I'm honest, so God, he gives me all my accounts. I'm really looking to make enough money to take care of my family, that's all.

Others, especially the artists interviewed, saw self-employment as a way to fulfill their creative desires, to "do what I love." A man who does video production said:

> If I didn't need the money, I'd still be doing this. It's how I express myself. I want to be able to make enough money each month to pay bills, so I can go out and do the nice projects that don't pay as much.

Another artist commented:

> It may not be the most successful business, but at least we're doing what we like. But I feel pretty successful now. We're doing what we enjoy doing, making a living doing it, and we're happy. For me, success would be that I was able to go fishing every other day if I wanted to.

Several of the clients interviewed expressed a strong desire to have a positive impact on their neighborhood and community—whether or not their business was an overwhelming success. This sentiment was found in all business types regardless of the economic position of the clients. One client, who operates a lunch counter with her husband, recalls how she got started with her business:

> Well, I found this place, near where we live. The people who were in there before were evicted for dealing drugs. And since I live there, I was really concerned in making sure that there were some changes in the neighborhood. . . . We don't want to be rich, we just want to make a living.

Another client in that neighborhood operates a bed-and-breakfast. She has been actively working to close down several hotels that, in her words, "are crawling with prostitutes and druggies." She also felt a strong desire to improve her community, with financial success a secondary goal.

> We have a lot of little obstacles. And I won't let anything slide by. And sometimes my husband yells at me and says that it doesn't have anything to do with the business. But I think that it has everything to do with the

> business—getting these hotels closed, and improving this neighborhood, and all that. So we get by the best that we can.

A career bookkeeper and a woman with a Ph.D. in philosophy are partners in a garden supply shop. While they have financial goals for their business, they also place an emphasis on community service:

> We both thought it was important to do what you love, and I love this. . . . For the long term, we do have this vision in our heads. We want to have profits of about $30,000 a year we can live on. We want to be in our own building, and we want to carry more products. But more importantly, we want to make this a community center for gardeners—a really vibrant community of people who share a common interest. Maybe have some food here. Encourage all the garden clubs to have meetings here. . . . And we want to make an impact on the environment, through some education. I mean, you're living in the desert, and people are planting bluegrass. That's just not sustainable. We need to show people how to live in this climate, and do appropriate gardening. . . . We're trying to find happiness—a place where people can be stress free, a place where they will want to be. We could get other jobs, but we don't want to.

Reasons for Pursuing Self-employment

Personal satisfaction was cited as a reason for pursuing self-employment by many interviewees. This woman owns a home-based business that specializes in housewares made with hemp:

> I supported myself working as an office manager for many years in Taos. Most recently for a real estate company. But I didn't find it socially satisfying. So I started volunteering at the local recycling center office, and eventually got a job there as the office manager. I was inspired by the environmental entrepreneurs, and wanted to do something like that. I also saw the reemergence of the hemp industry, and thought that this could be a good match.

Another man was dissatisfied with what he had to do to be successful as a salesman, so he decided to start his own business. He also expressed the desire to spend more time with his family:

> Well, before this, I was working in sales—for the same kinds of things. But you have to lie to make money the way it was, and I didn't want to do that. One of the reasons I started out on my own was that I wanted to be honest. I also wanted to be with my family, and take time off for them.

Often, artists will look to waged employment to supplement their self-employment activities. One artist said that she considered teaching Spanish and art her "job," while her art was her "career." Another artist interviewed, however, did not have such options. For her, self-employment was the only choice, due to life conditions:

> Teaching is a way a lot of artists get by. Personally, I'm not a good teacher. It's too stressful for me. Besides, I've got this kid with Down's. And I have to be here when he's home from school, and all summer, and the other vacations, and when he's sick. So what kind of job can I get that's this flexible. I can work this around my personal situation.

Advantages/Drawbacks of Self-Employment vs. Mainstream Work

As indicated previously, self-employment activities are a regular part of the New Mexico economy, although WESST corp clients tend to lack basic business skills. Many of those interviewed for this project had previous experience with waged employment, and some continue to patch incomes together. The advantages and drawbacks mentioned by WESST corp clients are similar to those expressed in our other cases. The man with a video production business expressed the thoughts of many interviewed:

> I like being the owner, setting the hours, and picking the projects I do. Instead of one boss, I have a lot of little ones. But it's how I'm able to do what I like to do. All of those things are on the flip side, too. It used to be that when a lightbulb blew out, I'd just say, "We need a new lightbulb," and we'd get it. Now, I have to ask if we have the money to buy one, and if we can live without it, and if we lost one last month, why do we need another.

Many individuals expressed dissatisfaction with the "culture" of their previous employment and said they had found an increased quality of life with self-employment. One of the partners in the garden supply shop discussed her philosophy on running a business:

> At my old job, it got to a point that I saw what needed to be done, but they were only interested in the bottom line, not quality. Here, we synthesized that, and decided that we should be helping people. It's hard work, but we can go on with a clear conscience. I think that people are tired of working for people who don't care about their employees in the same way. All businesses have to make money, but so much money? Not really. The best thing I ever did was to leave. It's hard work here, but it's different. There's a certain quality of life that I never had.

Her partner continued by noting that she always had problems with waged employment:

> I've never done well in a workplace. I've been labeled as a troublemaker. I worked well for people who said, "This is what I want done, now go and do

> it." It always took me a long time to be part of a team. Bosses who wanted to micromanage me thought I was difficult. I cared about quality, and they didn't.

Relationship with Microenterprise Program

As with other microenterprise programs, many clients have developed deep personal relationships with counselors at WESST corp One woman expressed this sentiment:

> I'm personally indebted to Dawn Redpath and WESST corp I did have some debt issues that they helped me with. She answers so much, and she's there in so many ways. Emotionally, giving me the support. Like this supplier in Romania I had some problems with, she sat down with me and we wrote business letters together. She was just there. I'm so grateful.

Another client appreciated the attention WESST corp gave his business, even when other funding sources did not.

> I've found that they were really interested in you, and enthusiastic in what you are doing. Some of my projects—well, they don't see this kind of stuff every day. And no bank would touch me if I walked in with some of these projects. So they were really supportive.

One of the partners in the above-mentioned garden center spoke of the support she received while writing her business plan and applying for an SBA loan:

> It was nice just having that support there. We had to rewrite it, and revise the numbers, doing it again and again. I don't think that someone could do it on their own. You need someone who knows what they really want and need. They were just very supportive.

For some clients, WESST was able to help them pull their ideas together:

> I've struggled. I'm usually doing things all the time. But figuring out my strategy for my business, and putting it on paper, is hard. WESST helped me put it all together, and gave me the confidence to get the loan. I tried talking to SCORE, but they didn't have any faith in me.

One client WESST corp has been working with recently is Jane. Jane was widowed when her two children were very young. She was a single parent for many years, until her most recent relationship. Her fiancé was abusive, and she's been living in a shelter since he kicked her out of the house. WESST has been helping her on find a place to live, get professional help, and get her business going.

Others needed assistance with credit, like this artist:

> I first came to WESST corp for advice on how to run my art like a business. But I got a loan—you know it takes money to make money. I learned how having money can help you with opportunities when they come up in business. I had a student loan that I just wrote off for years, and I'm working on that too. It really helps to build credit again.

And another noted the difference in service she received from WESST corp:

> There need to be more places that are more well-known like WESST corp They just don't give you the money. They help you work through it. I can call whenever I have a problem—you can't get that with a bank.

But some were critical of WESST corp because of the small size of their loans. One business owner said:

> There's easier ways to get money. They [WESST] only give $5,000. SCORE was wonderful, but I needed to get some money. Then I went to the New Mexico Community Development Loan Fund, and that didn't work out. I went to five banks, and they wouldn't do it either. I finally went to a friend, and he got it for me. And I started networking with other small business owners. They're the only ones who really know how to do it. No one who works on the clock is going to understand what it all takes. Only someone who's been through it.

Other criticisms were leveled at the workshops. One woman commented that it was always difficult for her to make the classes, due to a child-care constraint:

> I did not finish one of the sessions. If you have an ongoing business, it's hard to take time out to do a workshop. I mean, they had the classes at night and all, but for me, having the boys, no time is good. We both can't be down there working, because someone has to take care of the boys.

Some of the artists complained that the course materials were not always appropriate for their businesses. This artist captured the general sentiment:

> It was a whole lot of stuff [the workshops], but not all of it applied to me personally, and what I did. A lot of the details did not apply. Like marketing. I think I know more about marketing art than they do. I didn't feel like there was a slot for me. But there really isn't a whole lot of advice for people in my kind of work.

What Makes This Program Unique

What makes WESST corp a unique program is not necessarily anything the program has direct control over. The existing high level of self-employment by New Mexicans—as a result of regional economic factors—means that WESST corp's role is in providing limited business education and credit.

The bed-and-breakfast operator mentioned above is also fairly involved with community redevelopment groups. She observed that:

> There are a huge number of small businesses here in Albuquerque, and a number of women-owned businesses. I think it has to do with the low overhead, low rent, and that there are neighborhoods and communities here, and it's easy to get started. Communities support businesses. A lot of people here know people. A lot of people here have that pioneering spirit. It's always been boom and bust in these western towns. So you have to be able to make something. Everyone around here has a goofy idea, and friends who are going to support them.

Local economic development officials interviewed for this project noted the entrepreneurial nature of the local economy. Sylvia Fetes, program specialist with the Department of Family and Community Services for Albuquerque, sees the important role of small businesses in the local economy, saying "Microenterprise provides an opportunity for our people."

Dawn Redpath, the WESST corp regional manager in Taos, explained the poverty in the rural parts of the state. "Having three or four jobs, that's how most people survive around here." Another client, who works as a bookkeeper, also commented on the large number of self-employed individuals:

> We're a border state. There are little businesses all over. And a lot of family businesses that deal in cash, and a lot of labor intensive industries. There's not much in manufacturing, since capital is not available. And there's a lot of immigrants, and a basic mistrust of the government.

Agnes Noonan, executive director of WESST corp, notes the high incidence of entrepreneurship in New Mexico. She believes that residents have an innate propensity toward entrepreneurship. When asked to explain why she thought this was so, she said:

> Well, first, there's no real tradition of big manufacturing here at all. So people often worked for themselves, or in other small businesses. And salary scales are off the wall. Unless you work for a national lab or Intel, the salaries are really low. Self-employment in many cases is the only alternative, since there aren't the same kinds of opportunities here. I see our roles as playing the educator, and grounding people in reality if and when they start a business.

Vangie Gabaldon of the New Mexico Community Development Loan Fund notes that such businesses are more sustainable:

> We are creating jobs in the lending we do. And we're creating sustainable jobs that will be around. The difference with something like Intel is that they create a thousand jobs—but we don't know how long they'll be there. We take longer, but if we make a loan that makes a real difference in a community, it will be sustainable. We're working now to help start a day-care center in a rural community. Right now, there are no day-care centers there. If we can help that center open, we've helped that entrepreneur. And they'll probably hire three people to work there. But more importantly, we've created a business that fills a real need for that community. That will be a sustainable business, as well as an improvement to the entire community.

Program Challenges/New Directions

The first challenge identified by Noonan was in the area of long-term tracking of individual loans and clients. She said that while a loan is considered "good" if it's repaid on time, that doesn't mean that in three or five years the person is still in business:

> On the face, they may be successful loans. But our goal is self-sufficiency for the individual. Can I make that claim? Tracking—that's the biggest gap in our program right now. There's that intense period when we're working with a client. After that, it falls out. I can't say that of the 100 or so businesses we helped start in 1992, *x* are around today. I just can't say that. Forget what the funders want. How can I say we're fulfilling our mission? How are we assessing if people are achieving long-term economic self-sufficiency?

Another major challenge is geographic. New Mexico is a very large state, and WESST corp often has difficulty in meeting client demand, especially in rural areas. Noonan and other staff noted that a lot of time is spent *traveling*—but funders often overlook this part of the job.

A third issue for Noonan is welfare reform. She has worked hard to ensure that self-employment is considered a viable work activity. However, the state supreme court recently overturned the legislation, and the process will have to start again. Noonan notes a strong role for microenterprise in welfare reform:

> Nationally, there's all this focus on training. But I have to ask, "Training for what?" Where are all these jobs going to come from that we're training everyone for. Our governor said that people might just have to move to find jobs. In that sense, microenterprise offers some real hope and promise. My thought is that it becomes more crucial to look at a microenterprise strategy for these communities.

10

Working Capital of Lawrence

INTRODUCTION

The city of Lawrence developed as an industrial center of New England during the Industrial Revolution. At its peak of prosperity, it was a booming city of garment factories that employed thousands of workers—mostly women. Now Lawrence is home to a new generation of immigrants from Vietnam, Cambodia, Ireland, South America, Africa, Italy, the Caribbean, and other countries. Though Lawrence's factories still stand, and some continue to manufacture goods, Lawrence has been noteworthy in the state of Massachusetts in recent years for its high levels of poverty and unemployment. Despite its troubles, the people of Lawrence believe in the city's potential. Many have put down roots here, and some positive trends are evident. All of these characteristics make Lawrence a prime place for Working Capital (WC) to carry out its mission of revitalizing communities by strengthening microenterprises, connecting small business owners, and investing in local economies.

DEMOGRAPHIC AND ECONOMIC BACKGROUND

Lawrence is located in Essex County, in the northeast region of Massachusetts. Lawrence, along with the city of Lowell, is the historic center of this industrial region located 25 miles from Boston. This region traditionally has had an economy characterized by a high concentration of manufacturing. Nearly 32 percent of the region's employment is in manufacturing industries—a figure that far exceeds the statewide figure of 17.3 percent (Massachusetts 1993). Despite its relatively large size, the Northeast's manufacturing sector is not very diversified. Computers, communications, and military missile equipment account for the vast majority of manufacturing in the region.

Lawrence's residents see the community as an older, urban, industrialized city whose history parallels that of the country as a whole. Originally a rural farming town, the city was transformed into a major industrial center when Boston entrepreneurs developed huge textile mills on the Merrimack River, harnessing the power of its waterfalls. The mill owners built canals, a dam and a reservoir, boardinghouses, and a machine shop for locomotives, creating one of the first industrial complexes in the country.

Employees originally came from other parts of New England to work in the mills, but the city has traditionally served as an entry point to immigrants as well. By the turn of the century, Irish, Polish, Italian, Syrian and French-Canadian immigrants were following the jobs to Lawrence. More recently, immigrants have come to Lawrence from the Dominican Republic, Puerto Rico, and Cambodia. Despite huge technological changes over the years, the manufacture of textiles and of men and women's clothing is still central to Lawrence's economy.

Lawrence suffers from a number of socioeconomic problems. Once a thriving center of industry, Lawrence has seen its economic vitality ebb away over the past century. The most recent recession has exacted a heavy toll on the city's traditional manufacturing base and has caused extensive dislocation. With 27.5 percent of its population living below the official poverty line (as of the 1990 Census), Lawrence has the highest proportion of poor people of any community in Massachusetts (Massachusetts 1993). Lawrence also has below-average educational attainment levels. Unemployment was more than 13 percent in 1992.

TABLE 10.1
Lawrence Population by Race, 1990

	Persons	*Percent*
White	38,401	54.7
Black	1,195	1.7
American Indian, Eskimo, or Aleut	100	0.1
Asian or Pacific Islander	1,087	1.5
Hispanic Origin	29,237	41.6
Other	187	0.3

Source: U.S. Census

The total Hispanic population according to the 1990 Census was 42 percent, as is shown in Table 10.1. Lawrence's white population is on the decline due to out-migration, while its Hispanic population is growing. Between 1980 and 1990, the white population decreased by 17 percent while the Hispanic population increased by 172 percent. Lawrence, with the fourth-largest concentration of Dominicans in the United States, has served as a gateway community for Dominicans and Puerto Ricans for the past 25 years.

The following statistics help to paint a more detailed picture of the socioeconomic context of Lawrence:

- Per capita income in Lawrence was $9,686 as of the 1990 Census—only 56.2 percent of the state average.
- Lawrence's poverty rate in 1990 was 28 percent, compared to the state's 9 percent. Overall, 45 percent of the Hispanic population lived below the poverty line.
- 43.9 percent of Latino families were headed by a female in 1990, as compared to a statewide average of 16 percent. This represents nearly a 12.5 percent increase since 1980 in the number of Latino families with no male present on a regular basis.
- More households in Lawrence rent than in the surrounding areas; 68 percent of all occupied units in Lawrence are rented. In 1990 the mean rent was $470 a month. Subsidized housing units make up 13.2 percent of the total housing units in the city.
- Lawrence has a central retail corridor dotted with abandoned stores. The high vacancy rate has resulted from the loss of larger established retail businesses to shopping malls and to other nearby communities with higher average incomes.

> Lawrence also has a small and shrinking tax base, resulting from the abandonment of residential property and an arson rate that may be the highest in the country.

The total number of people receiving public assistance in Lawrence increased between 1989 and 1993 but has declined slightly since then. AFDC (Aid to Families with Dependent Children; now TANF, or Temporary Assistance to Needy Families), as a percent of total welfare cases, is somewhat higher in Lawrence than in the county or state.

Lawrence is primarily a blue-collar town with declining employment possibilities. While the population increased between 1982 and 1996, the size of the labor force declined slowly. The recession of the early 1990s resulted in a loss of 5,000 jobs—more than 20 percent of the local employment base.

Currently, 35 percent of workers in Lawrence are employed in manufacturing, 12 percent work in retail, and 40 percent of Lawrence's employment base is in the service sector—mainly in business and health services. The jobs in the service sector tend to be concentrated in low-wage, low-skills industry sectors such as janitorial services and security guard agencies. Manufacturing has diversified from mainly textiles and apparel to include rubber, plastic, metals, and electronic parts and equipment. Some of the largest employers in Lawrence (as of 1993) included:

- Malden Mills (1,400 employees)
- Lawrence General Hospital (1,300 employees)
- Shawmut Bank, N.A. (650 employees)
- Grieco Brothers, Inc. (500 employees)
- Bull Worldwide Information Systems (500 employees)

However, only 40 percent of the employed members of Lawrence's labor force actually work in the city. Thirty-six percent work in the surrounding metropolitan area, with the remaining 24 percent employed outside the region. Residents of Lawrence filled only 42 percent of the jobs in the city. Inadequate public transportation makes employment difficult for many low-income families.

Lawrence's unemployment rate in 1996 was 9.9 percent. Figure 10.1 shows unemployment for Lawrence and the United States during the period from 1983 to 1996. The so-called Massachusetts Miracle of the early 1980s seems to have missed Lawrence, as unemployment in the city during that period was about four points higher than in the rest of the nation. As illustrated, the most recent recession had an acute impact on Lawrence.

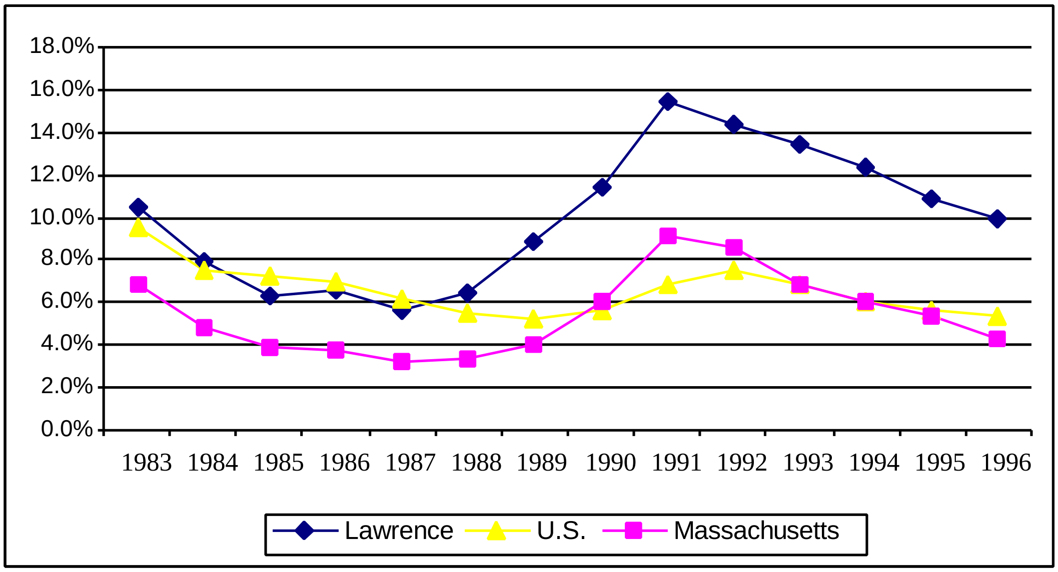

Figure 10.1 Unemployment rates: Lawrence, Massachusetts, and the United States,
1983 to 1996

Source: Bureau of Labor Statistics.

Public education is another significant problem. Lawrence's public schools continue to underperform as compared to those elsewhere in the region and the state. Dropout rates in Lawrence approached 17 percent compared to a 4 percent average for the state. During the 1993-1994 school year, school department data for ninth graders show that of the 627 who started the year, 196 (31 percent) dropped out.

Due to the large immigrant population in Lawrence, a high percentage of school-aged children are not proficient in English. More than one-third of public school students in Lawrence have a limited proficiency in English, and more than three-quarters of students have a first language other than English. However, spending for bilingual education programs is 34 percent less in Lawrence than in towns that offer bilingual education.

DESCRIPTION OF CASE PROGRAM

History, Mission, and Philosophy

Working Capital (WC) was founded in 1990 to increase the economic success of self-employed individuals and their communities by providing loans, business education, and networking opportunities to entrepreneurs with limited resources. Working Capital has started programs in eight states across the United States, from Maine to Florida to Missouri, has a growing program in Russia; and has hosted visitors interested in its program from all over the world. To date, Working Capital has reached more than 2,500 small business owners in the United States. This chapter looks specifically at Working Capital's Lawrence, Massachusetts, program.

Working Capital's strategy is based on founder Jeffrey Ashe's years of research and practice in developing countries, where he learned from third world peer lending models and adapted them to fit the needs of U.S. entrepreneurs. Working Capital was the first microenterprise program in the United States to use this peer lending strategy on a large scale. Since its inception, WC members have obtained 3,547 loans valued at over $3,483,500. More than 1,880 of the over 2,500 WC customers are active in more than 350 loan groups.

Ashe's decision to employ group lending in the Working Capital program initially made his job as a fund-raiser difficult. Even though many programs in less-developed countries had built impressive records using peer lending, funders were very skeptical about the workability of this method in the United States. Would people actually risk losing money to strangers? Would they invest so much time for such small loans? Ashe remained convinced that group lending could work in the United States and eventually got enough funders on board to start the program.

In Massachusetts alone, WC works through 16 local organizations, of which the most successful is the Lawrence branch. Working Capital Lawrence has been delivering loans and services to a primarily Dominican clientele since 1992. Overall, WC Lawrence has served 344 businesses in 53 loan groups and lent $963,957 in the past six years.

This site has proved to be an ideal place to carry out the Working Capital program due to these three important factors:

1. the dense population of the city
2. the high levels of poverty combined with the existence of countless small businesses
3. the existence of a close-knit community of immigrant entrepreneurs, the majority from the Dominican Republic, Puerto Rico, and parts of South America

Methodology

Application and Screening Process

WC's methodology is designed so that members run and manage their own peer lending groups. WC provides basic training and structure while members make all of the group and loan decisions. WC has changed and adapted to meet the needs of its members, while maintaining a philosophy characterized by the expression "They know how." After an initial information meeting, interested individuals who own businesses, or who wish to start businesses, attend member training (discussed in greater detail below) and form peer lending groups of four to ten entrepreneurs with others from their community. They attend biweekly or monthly meetings, complete a series of business training modules, serve as a loan committee for other members of the group by making loan approval decisions for each other, and provide advice and business expertise to one another. One of the most important benefits of Working Capital, according to members, is the networking opportunities that come from participating in the peer lending groups and belonging to the "community" of Working Capital members at each site.

Throughout the WC program, the enterprise agent plays a key role in outreach and recruiting for WC. Most are entrepreneurs themselves and are known and respected in their communities. In Lawrence, Leonor Sanchez, Mildred Rodriguez, and Rosa Orellana are three enterprise agents who have been with the program almost since the beginning. They identify and recruit small, home-based businesses in Lawrence and provide them with access to the program. Small business owners often find out about WC by word of mouth. Friends tell friends about the opportunity to obtain loans for their businesses, and they accompany members to their meetings to find out more about the program. Upon joining, group members are often able to turn a moneymaking activity that they do informally into a successful business by accessing capital that was previously unavailable to them. There is no formal screening process required by Working Capital for membership but the peer lending groups have strict standards and expectations of their members. The concept of peer lending is built on trust, and members know better than any program administrator could who has good standing in the community and who would be a good fit for a peer lending group.

Target Population

While WC is open to all small business owners or individuals wanting to start businesses, it sees its target population as low-income entrepreneurs from low-income communities. In Lawrence, WC has been most successful in reaching this population. Ninety percent of WC Lawrence's members are immigrants from the Dominican Republic, 70 percent are women, and 58 percent of survey respondents reported a yearly household income for 1996 of less than $15,000, close to the HUD-defined poverty line. The small size of initial loans granted by WC tends to screen out upper-income people, who generally have access to other resources.

Training

The training provided by WC has been refined over time. WC offers an initial information meeting in which potential members meet one another and learn about the program. They then form peer lending groups, where most of the business training actually takes place. Members systematically complete a series of business training modules during their group meetings, managing their own training and moving at their own pace. WC supplements this training with periodic workshops on specific business topics, and enterprise agents are available if questions or difficulties arise. This self-guided training can be problematic if group members come to the process with widely divergent skills and experiences. The primary advantage of this system is that it cuts program costs dramatically.

Two years ago, WC changed the initial information meeting format to include another key step. During member training, interested entrepreneurs follow up the information meeting with an intensive all-day training prior to starting the peer lending group formation process. In the member training, potential WC members receive a much more in-depth view of the WC process, get to know fellow interested entrepreneurs, start brainstorming goals for their businesses and their community, learn how to do a cash flow analysis, and prepare to form groups. This extra step helps give group members a common foundation.

Lending

Working Capital does all of its training and lending in borrowing groups. Group members, with some help from their enterprise agent, meet regularly (usually once a month) to progress through the training materials, become chartered, and accept or deny each other's loan applications.

Working Capital borrowers must begin borrowing at the $500 level and proceed through successive levels regardless of need, credit history, or size of business. Table 10.2 illustrates the amounts and terms of each step.

TABLE 10.2
Working Capital Stepping Process

Step	*Maximum Loan Amount*	*To Be Paid No Faster than:*
1	$ 500	4–6 months
2	$1,000	4–12 months
3	$1,500	4–18 months
4	$3,000	12–36 months
5	$5,000	1 –36 months

Source: Fieldwork at Working Capital

Borrowers pay interest of approximately 12 percent plus a service fee of between two and five dollars per month to help cover loan administration, business education, and training materials. This process of starting out small and progressively borrowing larger sums of money is called "stepping"; it is being increasingly employed in microenterprise programs, particularly those that use peer lending. During the first couple of rounds, borrowers learn about the process of borrowing and also build trust with each other. While many participants expressed dissatisfaction at the small size of the loans, they also recognized that borrowing large amounts right away could potentially strain the trust necessary to make the peer group structure work. The theory behind stepping is that by the time group members are ready to borrow sums large enough to potentially damage others' credit and/or business, group members know enough about each other's businesses to feel confident about approving, rejecting, or imposing conditions on another member's loan. The primary disadvantage of stepping is that it constrains borrowers whose businesses are growing quickly and who need larger amounts of credit in order to keep pace with their growth.

Of the 1,597 WC loans made in the state of Massachusetts, which total $1,690,800, 60 percent have been made to borrowers in Lawrence. Ninety percent of the borrowers are Dominicans. Throughout WC, loans are given in steps beginning at $500 and moving up to $5,000. For those who have reached the top of the loan ladder, WC Lawrence will occasionally issue higher loans of up to $10,000 if entrepreneurs are moving from a home-based business to a storefront business. To date, Working Capital has disbursed 793 loans in Lawrence with a combined value of $963,957. The average loan size is $1,215 and the average loan term is 10.15 months. Table 10.3 illustrates the loan disbursement breakdown and the average loan term.

TABLE 10.3
Loan Disbursement Breakdown and Average Loan Term

Amount of Loan	*Number*	*Terms (in months)*
$500 or less	332	5.42
$501 to $999	208	8.72
$1,000 to $1,499	141	12.09
$1,500 to $2,999	86	22.44
$3,000 to $5,000	26	30.92

Source: Fieldwork at Working Capital

Many clients told us that without the capital from WC, their businesses would be more of an idea than a reality. One respondent explained, "The possibility of obtaining a loan exists only with WC. Banks have too many prerequisites." Many respondents referred to their arrival in the U.S. as a time of great disorientation. Working Capital helped them start a new life in this country and gave them training and access to loans and peer support—with other people like them, in their native language.

Relationships with Other Organizations and Institutions

Working Capital initiated its Lawrence program through the Lawrence Minority Business Council (LMBC). LMBC was organized formally in 1989 as an offshoot of the Commonwealth of Massachusetts's Gateway Cities Program, which encouraged the creation of a business development organization focused on the minority communities in the city of Lawrence—especially Latino populations. The LMBC was assisted in its development by the support of the mayor of Lawrence, Kevin Sullivan.

The decision of the LMBC to provide the Working Capital program to its constituents came after studies done in the 1980s cited isolation and limited access to credit and business education as primary obstacles to the survival and growth of the small businesses there. Carras Associates, with assistance from the National Puerto Rican Coalition, reported in 1991 that microenterprise lending and a local credit union would be critical to the development of Hispanic businesses. Further, the research efforts of an MIT graduate student, Kim Stevenson, showed that the growing contribution of Hispanic families to the local economy was yielding great opportunity for Hispanic businesses. In addition, a Minco Development Corporation report to the Minority Business Summit in 1994 analyzed the Lawrence economy and identified a large market potential for Hispanic businesses whose growth was hampered by inadequate access to credit.[1]

In 1992, with a clear mandate from the community, LMBC researched and identified Working Capital as the most cost-effective means of addressing the needs of the minority business community. Working Capital had the successful methodology, capital, and training materials necessary to help jump-start a Lawrence program. Working Capital offered Lawrence's small business owners a forum for peer support, $500 to $5,000 in capital, and a group-based training curriculum. LMBC contracted minority business owners who were well known in the community along with highly skilled trainers to serve as Enterprise Agents.

Changes in Mission and Methodology Since Inception

WC Lawrence's methodology has remained relatively constant in the six years in which the program has operated. There has been some interest on the part of the enterprise agents and the entrepreneurs in starting a Tier II program, which would grant loans from $5,000 to $10,000 or more, using the same methodology.

In Lawrence, some of the peer lending groups have joined together, or members have moved to different groups over the years. WC is planning to introduce a new Enterprise Alliance Program for Lawrence, with individual peer lending groups merging to form enterprise alliances

1. Goldstein-Gelb, Marcy. Working Capital internal document.

of 20 or more entrepreneurs. Enterprise alliances will expand on the original WC methodology, providing access to larger loans to larger peer groups that manage their own funds and have their own loan committees. The enterprise alliance will have other benefits for members (discussed below).

Funding

Current Sources

Working Capital Lawrence is currently funded by the City of Lawrence, the Lawrence Planning and Neighborhood Development Corporation, and Working Capital**.**

Sources over the Last Five Years and Explanation of Changes

Until last year, WC Lawrence, through the LMBC, had its own funding separate from the rest of Working Capital.

In its beginning stages, the LMBC was housed in the Community Development Department, where it had been provided in-kind matching funds for two planning grants of $90,000 received from the U.S. Economic Development Administration.

Early in 1994, the LMBC office moved to Essex Street, the main commercial corridor of Lawrence, and opened the Business Development Resource Center with $54,000 in grant funds provided by the Massachusetts Community Development Finance Corporation's Urban Initiative Fund. LMBC, in focusing on the Latino communities, could not help but turn its attention to the small home-based and storefront businesses or "microenterprises" that were in need of access to the same types of business support as larger businesses.

Through the years that LMBC ran the Working Capital Lawrence program, funding for LMBC came mostly from the City of Lawrence. The Stevens Foundation provided $10,000 and Sun Micro Systems also provided major funding. BankBoston provided financial support to the program as well. However, with the funding cut off, the LMBC has recently ceased operations, and as of July 1, 1998, Working Capital is operating through the Lawrence Planning and Neighborhood Development Corporation (LPNDC).

Outputs

Number of People Trained

LMBC began WC Lawrence as a pilot peer lending program, and it quickly took off. In just two years, 27 WC loan groups were established that supported 162 businesses. The businesses ranged from groceries to caterers, from car repair to electronics repair companies. More than one-half of the participants were women, and nearly one-third were trying to get off public assistance. Many ran their businesses from their homes, and most were trying to build a part-time into a full-time business.

In the past four years, the LMBC went through a series of changes in management and location before finally folding. Despite the instability of the LMBC, three enterprise agents have remained with the program throughout, managing a combined total of 53 peer lending groups with a cumulative membership of 344 microentrepreneurs by 1998.

Business Starts, Stabilizations, and Expansions

Anthony's 1996 survey determined that Working Capital had contributed to the creation of approximately 360 start-up businesses in the program since its inception in 1990. One-half of the business start-ups were by individuals who had no other employment. About 55 percent of all start-ups contribute to the owner's monthly income. In Lawrence, 16 percent of businesses were start-ups.

According to Anthony, "In Working Capital, overall the number of full-time jobs in all businesses grew by 34 percent and the number of part-time jobs increased by 51 percent. This means that WC encouraged the growth of more than 170 full-time jobs and more than 280 part-time jobs. The majority of businesses have no employees other than the owner/operator (Anthony 1996:9).

Results from Anthony's 1996 survey show that the impact of WC is considerable, both program-wide and in Lawrence. WC has a substantial impact on the success of both the business and the individual. Data from respondents in Lawrence indicate an increase in both business sales and profits. Sales increased an average of 60 percent when entrepreneurs joined WC. The findings also show an increase of sales from an average of $551 per month before involvement in WC to an average of more than $670 per month after the owner joined WC. Business profits increased by 56 percent among all WC businesses in Lawrence (Anthony, 1996).

In Lawrence, owner's draw (the income an owner takes from a business after paying expenses and investing in the business) increased by 17 percent when business owners joined WC. Average owner's draw went from $441 before involvement with WC to $457 after. Client entrepreneurs also reported a 44 percent increase in customers per week since joining the program (Anthony 1996).

Types of Businesses Started

The data from the 1996 survey show that 91 percent of businesses in Lawrence are sole proprietorships, 70 percent are home-based, 23 percent are in rented storefronts, and 6.4 percent operate on the street or in flea markets. Forty-one percent of survey respondents said that this was their first business, and 85 percent of these respondents said that they had the same business as when they started the WC program. Of the respondents who started their business with WC, 72 percent said it would have been difficult or very difficult to have done so without WC.

The respondents operate a variety of businesses. One of the most popular small business activities in Lawrence, which seems to be particular to this program site and to the Dominican entrepreneurs, is the purchasing of wholesale goods in New York for resale in Lawrence. Several respondents from this group have this type of business.

Other types of businesses in Lawrence are in the service sector: home day care, catering, restaurants, auto mechanics, furniture upholsterers, among others. In the retail sector many women sell either Avon products or, more often, products that they have bought from wholesalers in New York. These products might be clothing, sheets and bedcovers, cushions and pillows, gold jewelry, or anything else the customer orders specifically. Other entrepreneurs are small-scale manufacturers. Many women, formerly seamstresses at garment factories either in the Dominican

Republic or in Lawrence, have started their own businesses. A few men are skilled carpenters who manufacture cabinets, wooden decorations, and furniture.

Other Outcomes

Anthony's data also show that individuals experienced an increase in confidence in many areas of their business and personal lives after participating in WC and in the peer lending groups. The greatest increase of self-esteem occurred in participants on the lowest rung of the income ladder, owners of the smallest businesses (those business owners with sales less than or equal to $5000 per month), and minority participants (Anthony, 1996:19-20).

In addition, WC members show an increased involvement in their community, local politics, and city council. Anthony's 1996 survey revealed that 69 percent of current WC business owners belonged to at least one community group, compared to 53 percent of former members.

Findings from the Client Side

Typical Client

Interviews by Denise Anthony with 50 entrepreneurs in Lawrence in 1996 revealed the following basic information about Working Capital members in that program:

? Ninety percent of respondents were Latino.

? Seventy percent of respondents were women.

? Eighteen percent of respondents were single mothers.

? Sixty-two percent were at 125 percent of the poverty level.

? Fifty-eight percent of respondents had a yearly household income below $15,000; 33 percent made between $20,000 and $40,000.

? Respondents tended to be older, despite the fact that the overall population of Lawrence is younger than in surrounding areas. Thirty one percent of respondents were between the ages of 30 and 40; 29 percent were between the ages of 40 and 49, 20 percent between the ages of 50 and 59 and 18 percent above 60 years old. Only 2 percent of respondents were between the ages of 20 and 29.

? Forty-four percent of respondents had less than a high school education, 25 percent had attained a high school degree, 17 percent had some college education, and 12.5 percent had a college degree.

? Only five respondents had ever applied for a business loan from a bank, and only one had received it.

? Eighteen percent of respondents owned their own home, in line with the overall homeownership rate in Lawrence.

? Seventy-two percent owned their own automobile, perhaps a testimony to the lack of access to public transportation.

Range of Clients Served

More than 90 percent of the respondents from the Lawrence portion of the 1996 survey were from the Dominican Republic. Most had had some business experience before arriving in the United States. Many had sold merchandise out of their homes or on the street and were accustomed to fluctuating sales and monthly earnings dependent on availability of stock and the needs of their clientele.

Of the ten entrepreneurs interviewed for this study, eight were women. All were from the Dominican Republic; most had come to Lawrence within the past ten years. The average age of the entrepreneurs interviewed was 46. The range was 32 to 67 years old. Three of the respondents were currently married and eight were separated or divorced. Nine out of the ten had young children or grandchildren living in the house with them. This sample of respondents seemed to be representative of Working Capital Lawrence members, though it slightly underrepresents the male population.

Definitions of Client Success/Client Goals

The respondents generally consider themselves successful. Many measure their success by the fact that they now have a viable business after initially struggling in a new country. One client, a furniture upholsterer, said:

> I didn't have anything at first. Just a desire to work. Now my business has grown. This is a success.

The Dominican entrepreneurs we interviewed are optimistic people who trust in their hard work and strong faith. They are satisfied with what they have but are not afraid to dream about the future. "Success is achieving each small goal that I establish for myself," says one seamstress. Most believe that they are successful because they have achieved their small goals, and they continue to set new ones. Others believe that if the customer is satisfied, they have been successful.

Many of the respondents who have home-based businesses expressed a desire to ultimately own their own shop in Lawrence. "I'd like a little store in the future. I want to leave my factory job and have a shop in Lawrence," says one respondent. Some would like to hire employees once they have a storefront. Many express the desire to have a place where members of the community could gather to socialize with their families. Their shop would also serve as a way for them to feel more established and connected in the community:

> I'd like to have a storefront bakery, a place where people from the community can gather. I'd have toys for the kids to play with and the parents could come together.

Another entrepreneur says:

> I want to have my own business in a store, something pretty where people will involve me more with the society. Something entertaining.

All ten of these respondents expressed as a primary goal the desire to expand their businesses. The upholsterer has already begun by selling water filters and beepers as well as upholstery. Next he wants to branch out into a cleaning business. Those who sell products bought wholesale in New York would like to diversify their inventory and sell some products in the Dominican Republic, or begin to sell wholesale themselves. One seamstress wants to be a big designer "like Oscar de la Renta." Some require more equipment or machinery to increase their productivity. Most feel like they are a long way from opening their own shop, but it is a goal that they always keep in mind. "I want my own shop. I don't know when, but one day," says one respondent.

Reasons for Pursuing Self-Employment

The majority of respondents have pursued self-employment in Lawrence because they previously had a business in their own country and it seems almost second nature for them to do so. Many were able to start a business in the United States because they could access capital through Working Capital. Some had tried initially to obtain bank loans but were turned down. In some cases, friends told them about Working Capital, and often, friends pointed out that they could turn an activity they were already doing into a more viable business opportunity.

> Five years ago I heard of Working Capital through some other people. They told me about the help. I went out of curiosity to a meeting just to observe. That same day they took me as part of the group and I ended up almost like a member of the family. Everything was difficult for me in the United States as far as work. Difficult because I didn't speak English. I found a way out with Working Capital.

The majority of the respondents make more money with their own businesses than they would working in a factory or at another job. Most find it more convenient and enjoyable to be on their own rather than working for someone else. Quotes from two seamstresses illustrate what they perceive to be the advantages of self-employment:

> I'm satisfied with the money I make at my business. The return is better than if I made two hundred dollars working outside the house. Now I'm efficient at my work. In little time I can do my work. After cutting, it's easy.

> If it weren't for Working Capital I'd be working in a factory, sewing for someone else, with the boss at my side telling me to sew ten times faster. No way! Here in the house I work however I want to; I'm with my kids. My own schedule. No one tells me no. My machine, my house.

Advantages/Drawbacks of Self-employment vs. Mainstream Work

Of the respondents in this study, most view self-employment as an opportunity to be their own boss and earn money for themselves rather than someone else. Some report that they have been able to leave menial jobs at McDonald's or in factories where they had been used to working long hours with few breaks and constant pressure to produce. Most had some experience in their line of work before starting their own business, or were the product of an entrepreneurial culture that prepared them for self-employment. For the most part they had had little formal training. Many learned a skill as children growing up in entrepreneurial families or watching and helping neighbors or family members in their work.

Of the entrepreneurs interviewed, all prefer being self-employed to working for someone else, where they have to "punch the clock." Many say that they like giving something back to society, and they enjoy knowing that people rely on their particular skill or service. Respondents find a sense of purpose in the community with their business. One business owner who buys household products and clothes in New York for resale in Lawrence explains:

> I like to buy things to offer to the public. I like to see how well they look on people.

She had not realized the potential for making money from this interest until a friend told her that with a loan from WC she could have a viable business importing specially selected wholesale goods to Lawrence.

A bakery owner, who works out of her home and appreciates being close to her children while at work, said:

> The people need me. What I do is really worth the effort. For example, if I make a wedding cake and the customer is really satisfied, then I am successful.

A day-care owner gets great personal satisfaction from her work:

> I like everything about having my own business. I love everything that I do with the kids. Some I've had since they were babies up until when they first start school. They call me mommy.

Many find a sense of personal freedom in having their own business. They enjoy the flexibility of their schedule and the convenience of being in their own home, close to their families. "Now that I work out of the house, I can take care of my kids", explains one entrepreneur.

A furniture upholsterer, whose business has sprouted other side businesses, says:

> What I like best about having my own business is that I always have new ideas, positive ideas. I have an objective.

Several share the sentiment that what they earn is all for themselves, and is a direct result of their efforts:

> I love to sell. It's money just for me. I don't have to share it with anyone.

Another, who sells items from New York in addition to working at a factory job, says of her business, "I like to be independent"—a sentiment echoed by many respondents. Even though some respondents maintain full- or part-time jobs in addition to their businesses, they enjoy independence and decision-making power only at their business. One woman, who sells Avon products, puts it simply:

> It's income. Extra money to survive. To me selling something is natural, something that comes with being alive.

Entrepreneurs encounter some drawbacks to running a small business. The most common problem seems to be collecting money owed by clients who buy on credit. All of the respondents who sell clothing or household items express the same frustration. They enjoy providing a service to friends in the community, but they have a hard time being strict about setting prices and charging their customers. One interviewee explains:

> What I like least about having my business is charging, telling them how much something is and collecting money from people. Sometimes you lose friends.

Another says:

> Many people don't want to pay. I have to always be calling them and reminding them. I don't like the fact that they don't pay me right away when they buy something. They go. This hurts a lot. It also makes me mad.

Aside from this problem with collecting money they are owed, most respondents find very little to complain about with respect to their business. This may be due in part to the very positive attitude of the entrepreneurs from the Dominican Republic.

While most respondents are quick to say that there is nothing they don't like about running their own business, others express some frustrations. With the freedom and flexibility of running a business comes the increased demand on the business owner's time:

> What I like least is that my time is always occupied. This is stressful. Small businesses always have to struggle to have capital. If I need material or fabric, it is much cheaper to buy in bulk but sometimes I don't have enough money to buy in bulk.

Sometimes a specific circumstance comes up that can have a negative effect on the business. One respondent, who is a seamstress with a home-based business, is waiting to get new glasses: "Many people are waiting for me with orders for new dresses, but blind, I can't do anything."

Those who maintain another job as well as their business are often working to make their business viable enough for them to leave their job. Most define success as being able to open a storefront business where they can deal with a larger inventory, have more visibility, and be more accessible to the community. They find it difficult to find enough capital to make the move from a home-based business to a storefront.

Most respondents have not yet attained a high level of proficiency in English. They have a comfortable enclave society where they don't need to learn English to function in everyday life, but in order to do business on a larger scale it would be necessary.

Relationships with Working Capital

Respondents speak highly of WC, and many credit the program for helping them get where they are today. They realize the difficulty of obtaining capital and appreciate the ready accessibility of loans through WC.

Most respondents learned about WC through conversation with other business owners, or because an enterprise agent found them and got them to come to a meeting. Some went to the Minority Business Council, where an enterprise agent helped them find a group. One respondent says:

> I lived in Lawrence. I didn't have a business yet. I started it with the first loan. I went as a guest to a meeting of a peer lending group, and what a surprise! I met the EA. I got involved in the conversations, and before you knew it I was in the group.

The enterprise agents serve as a link to the whole WC program for these entrepreneurs. Most clients develop a close relationship with the members of their peer lending group, but if problems arise, the enterprise agent is there for advice or to help them in their discussions with Working Capital's loan department or other group members. One drawback to the current model mentioned by respondents is that if a member of their peer lending group doesn't pay back a loan, the whole group suffers, sometimes to the point of being paralyzed for months. In extreme situations, "deadbeat" borrowers have caused the whole loan process to come to a halt indefinitely.

Respondents expressed gratitude to WC for supplying them with loan capital and a network of other small business owners. "Everything I know is because of WC. I grew when I joined the program. They should give me a commission because I got a whole peer group together. We are great friends in our group. It's a very interesting experience in which one gets to know many people and have a lot of fun," says one respondent. Another says, "WC helps people progress. The loans help everyone. It's normally not easy to get a loan."

Respondents would like to see WC provide additional services that could help improve their businesses and their way of life. Many would like to have access to larger loans after they reach the current highest level of $5,000. They find it frustrating that lack of access to additional loans keeps them from expanding.

WC offers business education workshops, but some clients need more training (perhaps one-on-one) to deal with issues specific to their business. Some require very basic instruction in areas such as bookkeeping.

What Makes the Program Unique

According to Jeffrey Ashe, the Lawrence program has been successful for three reasons:

? It is a business membership organization, not a social service agency tangentially involved in enterprise development.

? It operates in a homogeneous immigrant enclave where the population is highly entrepreneurial and there is little access to capital because of poverty, and cultural and language issues.

? In Lawrence, three enterprise agents whose combined time commitment is less than one full-time position run the entire operation, which includes 53 active groups.

WC is one of the few peer lending programs in the United States, and WC Lawrence is one of the largest Hispanic peer group programs in the country. WC Lawrence has done a great deal to create community in Lawrence, and to link up entrepreneurs who can help one another, use each other's goods and services, and refer customers to each other. WC's frequent networking events are valued by members as a way to create a sense of community and to learn business skills.

The program has had great success in the Dominican enclave in Lawrence. In this close-knit society news spreads by word-of-mouth, and members who benefit from WC quickly tell others. WC is a familiar concept to Dominican entrepreneurs because it is similar to the San and the Sociedad, traditional rotating credit organizations in the Dominican Republic.

WC's group decision-making processes and its hands-off approach make it a unique and accessible program for entrepreneurs.

Program Challenges/New Directions

WC is developing a new model called the Enterprise Alliance Program, which will build on the peer lending model and provide members with a greater range of services such as business planning, marketing, networking, group support, training, personal and business credit ratings, and access to loans up to $20,000 per person. The Alliance model will tap into existing organizations to provide them with WC services and resources. Organizations such as artisan groups, religious congregations, chambers of commerce, immigrant societies, and cooperatives will have the opportunity to set up a WC enterprise alliance.

WC members in Lawrence will be able to merge their peer lending groups into enterprise alliances of approximately 20 self-employed members each. Having these larger groups will circumvent the problem of one member paralyzing the whole group through bad repayment records. The loan committee will make all loan decisions, and the amount of loan capital available to the enterprise alliance will be commensurate with the amount of money in the guarantee fund. If the alliance's repayment record is excellent, they will have access to increasingly higher loans up to the maximum of $20,000 per person.

The enterprise alliance model responds to members' desire for more personalized business training, greater networking opportunities, and access to higher amounts of capital. Initial loans range from $500 to $2,000 per member, and can grow to $20,000 if the individual has successfully repaid smaller loans. In addition, members benefit from an even stronger network of entrepreneurs and increased access to business planning, training, networking and group support. Each alliance's loan committee reviews applicants' plans, and individuals are responsible for repayment. WC believes that by working with existing organizations, more microentrepreneurs will gain access to the program and more communities will become vibrant centers for small business growth and cooperation. As mentioned earlier, the Lawrence Planning and Neighborhood Development Corporation will run the WC program in Lawrence.

Microentrepreneurs in Lawrence have already benefited in countless ways from the WC program. They will continue to expand their businesses in the future with the enterprise alliance model, and many of them will achieve their goal of moving from a home-based business to a storefront business, or from part-time to full-time status. There is still a great need for services and support in this community of entrepreneurs, and there is plenty room for other organizations to provide additional resources to business owners. The enterprise agents stress the need for technical assistance in the form of workshops and training sessions for small-business owners. English language courses are greatly needed. Increased access to lines of credit is needed, especially for entrepreneurs who have had success in their business and are ready to expand into a storefront.

Leonor Sanchez says:

> In Lawrence we need more agencies concerned with the microentrepreneur, to help them to succeed as self-employed business people. Then they will be able to create job opportunities for others and to achieve a better income for themselves. Microlending is a way to reach out to the small business. WC's support has been invaluable here in Lawrence.

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APPENDIX A

Methodology

INTRODUCTION

Case study research constitutes the core of this project. The case study method is most appropriate for conducting this research because it allows for the kind of in-depth analysis that the goals of this project require. It also enables us to understand critical differences between types of microenterprise programs and between types of economic distress. The research questions posed—designed to determine what kinds of microenterprise intervention work best with what kinds of economic distress—are best addressed in case studies. Finally, the case study method allows for a wide range of data to be used.

These case studies are supplemented by: (1) an analysis of the socioeconomic context in which each program operates; (2) an identification of the industries most likely to produce the outcomes—job creation, wealth generation, and tax-base enhancement—in which EDA is most interested; and (3) an assessment of the potential of the microenterprise strategy in the context of the other economic adjustment tools EDA currently employs.

RESEARCH QUESTIONS AND HYPOTHESES

The purpose of this study is to assess the potential of the microenterprise strategy as a tool to alleviate regional economic distress. In order to accomplish this goal, the study is conducted on three levels: (1) the level of the program; (2) the level of the area in which the program operates; and (3) the level of the business. In other words, we will examine differences across programs, regions, and types of businesses. The overarching research question is, "Should EDA encourage microenterprise programs to help alleviate structural economic problems?" We have operationalized this broad question by creating the four following specific research questions.

Research Question #1:

What type of microenterprise intervention can produce the greatest results in economically distressed areas?

The umbrella term "microenterprise program" masks vast differences that exist between programs. Because most programs are locally initiated and (at least initially) largely privately funded, they are designed to suit the context in which they operate and to be responsive to the needs of their particular constituency. A range of programs were studied in order to understand what kinds of interventions work best with what kinds of distress.

Hypothesis #1:

Different microenterprise models will be useful in different settings, but a set of best practices will emerge as consistent across programs.

Research Question #2:

What types of economic distress are most likely to be responsive to microenterprise programs as an intervention strategy?

Types of distress also vary, and the microenterprise strategy will likely be more successful in some types of distressed areas than in others. This study chose programs operating in areas suffering from a range of types of economic distress in which EDA has demonstrated interest, including inner-city areas that have witnessed a long, slow deterioration of their economic base; areas in which structural economic change has occurred quickly and on a large scale (areas where military bases have closed or that have experienced a natural disaster); rural areas with long histories of entrenched poverty; and resource-dependent regions experiencing depletion.

Hypothesis #2:

Areas and groups hit with relatively sudden economic distress will lend themselves more easily to microenterprise intervention than will areas characterized by poverty that has persisted for many years.

Research Question #3:

What industries offer the most potential for recovery of losses through self-employment?

Most microenterprise programs do little to steer entrepreneurs toward specific kinds of businesses. The majority of microbusinesses are home-based sole proprietorships in the service or retail sector, and most are less than five years old (Clark and Huston 1993). These businesses require little start-up capital and gain easy entry into the market. If the microenterprise strategy is to be used as an economic adjustment tool, it is important to look at the kinds of businesses started through microenterprise programs within the context of an analysis of small business areas that offer the most growth potential. Earlier research shows that most of the businesses started in microenterprise programs are unlikely to create jobs and generate income at a significant level in the short term, whereas the most promising potential for growth lies in emerging lines of business, such as business services, construction, and manufacturing (Bates and Servon 1997).

Hypothesis #3:

A mismatch exists between those businesses typically started within microenterprise programs and those businesses most likely to grow and generate stable employment.

Research Question #4:

In what ways can the microenterprise strategy complement existing EDA programs?

EDA currently operates economic adjustment programs in many of the areas where microenterprise programs already exist. It is important for EDA to learn whether and how these programs complement one another and what the potential is for greater coordination between them.

Hypothesis #4:

Potential exists for significant synergistic activity between microenterprise programs and other EDA-sponsored projects.

RESEARCH TASKS

To answer the questions set out above, we divided the research into the following five tasks.

Task I:
Description of Socioeconomic Context in Targeted Regions

Before conducting research at each site, we researched the socioeconomic context of the regions in which the six case study programs operate. We completed a fine-grained description and analysis of changes in the economic base of each region. We also drew upon existing economic research and interviews with local experts.

Task II:
Case Studies of Six Microenterprise Programs

The case studies were designed to assess the contribution microenterprise programs make to job creation and income enhancement in distressed areas and among the groups hardest hit by economic change. In addition, the case studies helped to identify the characteristics of businesses and entrepreneurs most likely to succeed using the self-employment strategy.

Fieldwork at each site included:

1. *Collecting existing program data.* The data collected includes budgets; organizational charts; historical statistics on client base and program activity; internal reports and evaluations; externally generated research, including studies conducted by other researchers and grant-making institutions; and state and local interpretations of relevant policy.
2. *Non-participant observation.* Our fieldwork at each program site included attending classes, meetings, and related community events in order to get a sense of the day-to-day operations of each program and obtain a more complete picture of how outcomes are produced. We also studied the relationships formed both within the program and between the program and other agencies and institutions.
3. *Interviews with board and staff.* Interviews focused on interpretations of program mission and goals, and assessments of what the programs have and have not accomplished. These interviews also explored the relationships between programs and policy at all levels.
4. *Interviews with participants.* Interviews were broad in scope, covering issues ranging from a participant's educational and employment history, to his/her relationship with program staff, to his/her goals vis-à-vis the program, to the status and potential of his/her business.
5. *Interviews with officials at connected institutions.* These interviews were designed to obtain the perspectives of microenterprise "experts," program funders (both public and private), and policymakers.

These case studies provided us with very specific data regarding the outputs, outcomes, and impacts that microenterprise programs produce in economic development terms.

Task III:
Survey of Microentrepreneurs

To obtain a standard set of client data across all six programs, we asked each microentrepreneur interviewed as part of the case study research to complete a written survey. This survey helped us synthesize information about all six programs and also contributed to our discussion of the types of businesses most likely to allow clients to reach self-sufficiency.

Some of the findings presented in Chapters 3 and 10 are drawn from a client survey administered to the microentrepreneurs interviewed during this project. See Appendix D for the actual survey instrument. Originally, when the fieldwork was conducted for WEB in Baltimore and ISED in Iowa, these questions were asked as part of the formal interview. Upon completing that fieldwork, it was determined that a standardized survey would be a better mechanism for obtaining these data. Therefore, for the fieldwork at NEF, WEST, WESST Corp, and Working Capital, the respondent was asked to complete the survey before the open-ended interview began.

ISED and WEB clients previously interviewed were later mailed the same survey instrument, with a self-addressed, stamped envelope, and asked to return the completed survey. Of the ten clients interviewed at WEB, three returned the survey; of the 22 clients interviewed at ISED, nine returned surveys. Additionally, we received only six complete surveys from the ten Working

Capital interviews, although we have some data on all ten clients. The resulting distribution of client interviews by program is given below in Table A.1.

TABLE A.1
Distribution of Client Surveys by Program

Program	*Frequency*	*Percent*
ISED	9	14.3
NEF	12	19.0
WEB	3	4.8
WESST	16	25.4
West	13	20.6
Working Capital	10	15.9
Total	63	100.0

As a result of the small number of surveys per program, the potential self-selection bias from WEB and ISED, and incomplete data from Working Capital, we cannot make statistically significant observations about individual programs. Rather, we have taken all the client surveys together to observe general trends about microentrepreneurs.

One final note about the generalizability of the survey findings: since the respective programs essentially chose which clients we interviewed, there is a potential bias in our findings. Although we requested programs to supply us with a representative sample of interviewees, in general, we interviewed clients with strong relationships with the particular microenterprise program. Such individuals tended to be in two classes: (1) those within the first year of starting their business, when an intense relationship is developed with the microenterprise program, and (2) successful entrepreneurs who have been in business for several years, and have maintained their relationship with the microenterprise program. Any survey findings viewed as representative of a larger community of microentrepreneurs should be considered with these facts in mind.

Task IV:
Identification of "Growth" Businesses

We analyzed the Census Bureau "Characteristics of Business Owners" (CBO) database in order to identify those self-employment scenarios that are most likely to result in job creation and creation of wealth; these are termed "growth" or "emerging" lines of business. We compared the emerging lines of business identified through CBO analysis with the types of businesses started through the six microenterprise programs studied. This comparison enabled us to tell whether microenterprise programs are fostering the creation, stabilization, and expansion of businesses most likely to combat economic distress. Determining which businesses are most likely to succeed and which programs are doing the most to promote the creation of businesses in emerging lines is important if the microenterprise strategy is to be used as an economic adjustment tool.

Task V: Assessment of the Microenterprise Strategy in the Context of Other Economic Adjustment Tools

Once the case studies were completed, we assessed the usefulness of the microenterprise strategy in the context of other economic adjustment strategies undertaken by EDA, such as Revolving Loan Funds, local technical assistance, planning, trade adjustment, and defense adjustment. The research conducted for this task both compares microenterprise programs to other strategies EDA currently supports and discerns potential synergy between microenterprise programs and other EDA strategies. We also interviewed state, regional, and local economic development officials in order to obtain a sense of their perceptions of and experiences with the microenterprise strategy.

APPENDIX B

Advisory Board Members and Affiliations

CHRISTINE M. BENUZZI
Executive Director
Association for Enterprise Opportunity (AEO)

PHILLIP BLACK
Director, Business Development
Rural Economic Development Center

MALCOLM BUSH
President
Woodstock Institute

JANNEY CARPENTER
Managing Director
Shorebank Advisory Services

ROBERT FRIEDMAN
Director
Corporation for Enterprise Development

ELLEN GOLDEN
Coastal Enterprises

JUNE HOLLEY
President
ACEnet

BARBARA JOHNSON
Executive Director
Women's Initiative for Self-Employment

ETIENNE R. LEGRAND
Principal
The Enterprise Group

JACK LITZENBERG
Charles Stewart Mott Foundation

MITTY OWENS
Director, Microlending Programs
Self Help

GENE SEVERENS
Nebraska Microenterprise Partnership Fund

CHRISTOPHER SIKES
Western Massachusetts Enterprise Fund

WELTHY SONI
Business Start

APPENDIX C

Interviews Conducted

INSTITUTE FOR SOCIAL AND ECONOMIC DEVELOPMENT

Program Partners:

R. J. Baker, Director of Economic Development, Cherokee Area Economic Development Corporation
Deb Bigaman, Contract Manager, Division of Economic Assistance, Iowa Department of Human Services
Philip C. Dunshee, Deputy Director, Iowa Department of Economic Development
Steve Dust, Director of Economic Development, MidAmerican Energy Company
David J. Lyons, Director, Iowa Department of Economic Development
Jim Mullholland, Vice President, Farmer's State Bank
Burt Powley, Former Director of Iowa Self-Employment Loan Program

Program Staff:

Jane Duax (Davenport)
John Else, Founder and President
Mel Essex (Waterloo)
Jason Friedman, Director of Economic Development
Joan Hills, Assistant Director of Economic Development
Jan Owens (Des Moines)
Todd Schuldt, Systems Analyst
Salome Rahaim, Third-Party Evaluator

22 Program Clients

NORTHEAST ENTREPRENEUR FUND

Program Partners:

Ross Buffington, Boundary Waters State Bank
Connie Christenson, Department of Economic Development, St. Louis County Office of Planning

Henry Hanka, Director, Arrowhead Region Development Commission
Steve Mangan, Executive Director, The Ordean Foundation
Mark Phillips, Director of Economic Development, Minnesota Power
Tom Renier, Director, Northland Foundation

Program Staff:

Suzanne Cunningham, Vice President and Business Consultant
Mary Mathews, President
Barbara Myers, Business Consultant (Duluth)

12 Program Clients

WOMEN ENTREPRENEURS OF BALTIMORE

Program Partners:

Ann Dugan, Funder Goldseker Foundation
Edward Young, Screener

Program Staff:

Amanda Crook Zinn, Executive Director
Nat Barnes, Business Consultant
Gilda Dorsay, Support Services Facilitator
Lauranne Klyce, Director of Training Program
Kate Goddard, Program Development Specialist
Awilda Marquez, Board Member

10 Program Clients

WEST COMPANY

Program Partners:

Susan Bell, Mendocino Community College
Judy Morgan, Department of Social Services, Mendocino County
Ross Welch, First Savings Bank
Pamela Swan, Former Director of Mendocino County Department of Economic Development

Program Staff:

Toni Klein, Business Development Director
Sheilah Rogers, Executive Director
Carol Steele, Loan Fund Manager
Celia Mendoza, Bilingual Program Manager
Maggie Watson, Business Development Manager
Tola Levison, AmeriCorps VISTA Volunteer

13 Program Clients

WESST CORP

Program Partners:

Sylvia Fetes, Program Specialist and Enterprise Community Coordinator, Department of Family and Community Services, City of Albuquerque
Vangie Gabaldon, Executive Director, New Mexico Community Development Loan Fund
Lydia B. Gallegos, Executive Director, Hispano Chamber of Commerce de Las Cruces
Mickey McDowell, Small Business Bank Manager, Bank of America
Leslie Neal, Vice President, Community Development Group, NationsBank

Program Staff:

Debbie Baca, Loan Fund Administrator
Jennifer Craig, Regional Manager, Las Cruces
Agnes Noonan, Executive Director
Dawn Redpath, Regional Manager, Taos

16 Program Clients

WORKING CAPITAL

Program Staff:

Jeffrey Ashe, Founder of Working Capital and Massachusetts Director
Leonor Sanchez, Working Capital Lawrence Enterprise Agent
Mildred Rodriguez, Working Capital Lawrence Enterprise Agent
Rosa Orellana, Working Capital Lawrence Enterprise Agent
Marcy Goldstein-Gelb, Working Capital Boston Director
Deb Janick, Working Capital Loan Department

10 Program Clients

FIELD EXPERTS, ADVISORY BOARD MEMBERS, POLICYMAKERS

Tyrone Beach, Project Manager, Philadelphia Regional Office, EDA
Christine M. Benuzzi, Executive Director, Association for Enterprise Opportunity
Malcolm Bush, President, Woodstock Institute
Janney Carpenter, Managing Director, Shorebank Advisory Services
Ellen Golden, Coastal Enterprises
June Holley, President, ACEnet
Barbara Johnson, Executive Director, Women's Initiative
Etienne LeGrand, Principal, The Enterprise Group
Jack Litzenberg, Charles Stewart Mott Foundation
Lisa Mensah, The Ford Foundation
Maxine Moul, Director of Economic Development, Nebraska
Mitty Owens, Director, Microlending Programs, Self-Help
Glen Patterson, New Brunswick Department of Economic Development

Renay Robison-Scheer, Northeastern Nebraska Development District
Jenne Rodriguez, Director, Community and Rural Development Division, Nebraska Department of Economic Development
Eugene Severens, Nebraska Enterprise Partnership Fund
Christopher Sikes, Western Massachusetts Enterprise Fund
Welthy Soni, Business Start
David F. Witschi, P.E., Director, Economic Adjustment Division, EDA

APPENDIX D

Survey Instruments Used

QUESTIONNAIRE FOR PROGRAM PARTICIPANTS

Please take a moment to answer the questions below. We will use your answers to these questions to make our program better. Thank you very much for helping us. *All of your answers will be kept strictly confidential.*

Name:____

Address:____

____

Date:____

Date of Birth:____

1. How many adults live in your household, including yourself? ____________________

2. How many children live in your household, and what are their ages? ________________

____

3. What is your marital status?

   _______ single, never married

   _______ currently married

   _______ single, previously married

4. How old were you when you had your first child? ______________________________

5. What is your race/ethnicity?

________ Anglo-American ________ African American

________ Hispanic ________ Other

6. Where does the money that you use to run your household come from? Please list all sources and the amount that comes from each source each month.

Income from your business ________

Income from your job ________

Income from others in your household ________

Child support ________

AFDC/TANF ________

Food stamps ________

Medicaid ________

SSI ________

Other ________

Other ________

7. If you are currently receiving public assistance of any kind, how long have you been receiving it?

____

8. Did your household receive public assistance while you were growing up?

Yes ________ No ________

9. Do you have any disability?

Yes ________ No ________

10. Which of the following best describes your educational attainment?

_____ less than high school

_____ high school graduate

_____ GED

_____ some college

_____ college graduate

_____ postgraduate degree

_____ other (please explain)

____

____

____

11. What are your average monthly sales from your business? This is the total amount of money you make with your business each month.

____

12. Overall, have your business sales increased, decreased, or stayed about the same over the past year?

____

13. What are your monthly business profits? This is the amount of money you make after you pay your business expenses.

____

14. Overall, have your business profits increased, decreased, or stayed the same over the past year?

____

15. What are the assets that you have in your business? Assets include space, inventory, equipment, and cars or trucks that you use for the business.

____

16. How much do you think these assets are worth?

____

17. Do you have any debts for your business?

____

18. If you do have debts, please list where the debts are from and how much each debt is:

____

____

____

19. Have you ever participated in job training? If yes, please describe what kind.

____

20. Have you participated in other training or classes that have helped you in your business? If so, please list them below.

____

21. How many years have you been running your current business?

____

22. How many hours do you work in your business each week, on average?

____

23. If you work in a job in addition to your business, how many hours do you work each week in that job, on average?

____

24. Do you have any employees?

______ yes ________ no

25. If you do have employees, how many do you have?

____________ part-time employees

____________ full-time employees

26. If you do have employees, do you provide benefits for them?

______ yes ________ no

27. Do you have health insurance?

______ yes ________ no

28. If you do have health insurance, is it:

_____ through your business

_____ through your job

_____ through your spouse's job

_____ public insurance (Medicaid)

_____ other (please explain) ________________________________

29. Do you have a retirement plan?

______ yes ________ no

30. If you do have a retirement plan, is it:

_____ through your business

_____ through your job

_____ through your spouse's job

_____ other (please explain) ________________________________

31. Do you pay taxes on your business?

______ yes ________ no

QUESTIONNAIRE FOR ADVISORY BOARD MEMBERS, EXPERTS

Inform respondent that all information given will be confidential.

Begin interview by telling the respondent about the project and the general topics that will be covered.

1. Tell me about your history of involvement with the microenterprise movement.

2. What role can the microenterprise strategy play in helping a city/region rebound from economic distress?

3. In your opinion, what are the characteristics of successful entrepreneurs?

4. How would you define success for microenterprise programs?

5. What are the characteristics of a successful microenterprise program?

6. What kinds of microbusinesses are most likely to achieve economic development outcomes?

7. The EDA is concerned with creating jobs, enhancing the tax base, and generating income—in what ways do you think the microenterprise strategy can help to accomplish these goals?

8. Can you think of other ways/measures that we can assess the economic development potential of microenterprise programs?

9. Do you think that there are certain industry sectors that are more likely to yield success for entrepreneurs than others? Should microenterprise programs be steering their clients toward these sectors?

10. In order to make a difference with respect to the economic health of a city/region, a microenterprise program has to achieve scale. Are there programs that are doing this well?

11. Are there any other questions we should be asking that we have not yet asked?

12. Who else do you think we should interview about these issues?

QUESTIONNAIRE FOR FUNDERS, GOVERNMENT PERSONNEL, PROGRAM PARTNERS

Inform respondent that all information given will be confidential. Begin interview by telling the respondent about the project and the general topics that will be covered.

1. Tell me about the history of your organization's involvement with [PROGRAM NAME].
2. Tell me about your own history of involvement with the microenterprise movement.
3. What is your role here at [NAME OF INSTITUTION]?
4. Tell me about the process that led to your organization becoming involved with [PROGRAM NAME].
5. Is [INSTITUTION NAME] satisfied with the results [PROGRAM NAME] is producing?
6. Do you require [PROGRAM NAME] to do any reporting of their results to you?
7. IF YES, what kind of reporting? How often?
8. Do you think [PROGRAM NAME] is successful?
9. How would you define success for [PROGRAM NAME]?
10. In your opinion, what are the characteristics of successful entrepreneurs?
11. In your opinion, what role can the microenterprise strategy play in helping a city/region to rebound from economic distress?
12. In your opinion, what role can [PROGRAM NAME] play to help low-income entrepreneurs achieve self-sufficiency?
13. How would you define success for microenterprise programs such as [PROGRAM NAME]?
14. What are the characteristics of a successful microenterprise program?
15. The EDA is concerned with creating jobs and generating income—in what ways do you think the microenterprise strategy can help to accomplish these goals?
16. The EDA may be interested in getting involved with the microenterprise strategy. In your opinion, what is the best way for this federal agency to get involved?
17. Are there any other questions we should be asking that we have not yet asked?
18. Who else do you think we should interview about these issues?
19. If I think of anything else to ask you, is it okay if I call you to follow up?

Thank you very much for your time. Here is my phone number and e-mail address so that you can contact me if you think of anything else or if you have any questions for me.

INTERVIEW INSTRUMENT FOR PROGRAM CLIENTS

I'm _________ and I am doing a research study on self-employed people like you and on programs like [PROGRAM NAME]. Thank you for agreeing to meet with me today. We're doing some research to find out more about the people who use the [PROGRAM NAME].

I will be asking you questions about yourself and your business and your experiences at [PROGRAM NAME]. You don't need to know anything special. I just want to hear your story. You don't have to answer any questions that you don't want to answer.

Do you mind if I tape the interview? I use the tapes only so that I don't have to worry so much about writing everything down. If I tape it, I can focus more on you.

Everything you tell me will be kept confidential. I will not use your name in anything that I write so there will be no way to identify you from your answers. No one will have access to my notes or tapes except me and one other person who's helping with this research.

Do you have any questions for me before we begin?

[CHECK TO BE SURE TAPE RECORDER IS WORKING]

Background

1. What made you interested in going into business for yourself?

2. Is this your first business or have you been self-employed in the past?

3. How did you learn how to <u>(insert relevant skill: drive a taxi, make empanadas, etc.)</u>?

4. What do you like best about being in business?

5. What do you like least about being in business?

6. How many hours a week do you work in your business?

7. Are you working more or less in your business now than when you started it? (PROBE: for explanation)

8. Has your business grown over the past year?

   IF YES, continue with question #9
   IF NO, move to question #10

9. What are the factors that you think have contributed to the growth of your business?

10. Why do you think your business has not grown? (PROBE: did they want it to grow or not?)

Employees

11. Do you have any employees?

    IF NO, continue with question #12
    IF YES, go to question #14

12. Would you like to be able to hire employees?

13. What do you think needs to happen before you are in a position to hire employees? [MOVE TO QUESTION #23]

14. Tell me about your employees.

15. How many do you have?

16. How many hours does each work?

17. Did your employees have training in this line of business before you hired them?

18. Have you provided them with any additional training?

19. How much do you pay them?

20. Do you give your employees any benefits?

21. At what point did you decide to hire employees?

22. Do they work for you year-round?

23. Do you plan to grow your business by hiring more employees?

24. How did you find the people you hired? (PROBE: neighborhood connections, family, etc.)

25. Do your children help you in your business?

Experience (with program name)

26. Tell me about where you were at—with your business and in your life—when you came to [PROGRAM NAME]?

27. Why did you go to [PROGRAM NAME] originally?

28. Did you go anywhere else for help? (PROBE: SBA, SCORE, banks)

29. Have you gotten a loan from [PROGRAM NAME]?

    IF YES, continue with question #30
    IF NO, go to question #36

30. How big was your first loan?

31. What did you use your first loan for?

32. Have you received any other loans from [PROGRAM NAME]?

    IF YES, continue with question #33
    IF NO, move to question #36

33. How big were these loans?

34. What did you use them for?

35. Was your experience getting other loans any different?

36. Are you active in the [PROGRAM NAME] program now?

37. IF NO, why not?

38. Do you plan to apply for more loans from [PROGRAM NAME] in the future?

39. IF YES, what will you use them for?

40. Has your participation in [PROGRAM NAME] affected your business?

41. IF YES, how?

42. Has your participation in [PROGRAM NAME] affected other areas of your life? (PROBE: involvement in the community, family, employment experiences)

43. What would you be doing now if you had not gone to [PROGRAM NAME]?

44. Do you plan to stay involved with [PROGRAM NAME] in the future?

45. What do you think would have happened if you had not gone to [PROGRAM NAME]?

Household Finances

46. Where does the money that you need to run your household come from? (PROBE: work for wages, self-employment activity, public assistance, other household members)

47. How much money do you get each month from each of these sources? (try to get accurate figures)

48. Can you count on getting the same amount of money from each of these sources every month or is it different from one month to the next? (PROBE: for details on how and why it changes)

49. Overall, are each of these sources increasing, decreasing, or staying the same? (PROBE: about each source and for explanation)

50. Is your financial situation more stable than it was last year? Or less stable? (PROBE: for explanation)

51. Are you or is anyone in your household receiving any kind of public assistance? (PROBE: food stamps, medical assistance, housing subsidies, child-care subsidies, TANF, GAIN in CA)

52. Have you received public assistance in the past?

    IF YES:

53. Tell me about your experiences with the welfare system. (PROBE: for how they felt, how they were treated by caseworkers, etc.)

54. How do you feel about welfare reform?

55. Do you have health insurance?

56. IF YES, where does it come from?

57. Do you have a retirement plan?

58. IF YES, where does it come from?

Business Finances

59. How much do you depend on the income you get from your business for your financial situation?

60. How satisfied are you with the amount of money you are making with your business?

61. What do you do with the money that you make with your business? (PROBE: reinvest in business, use it to pay bills, save for another purpose)

62. How do you decide what you do with the money that you make with your business?

    IF THEY REINVEST, continue with question #63
    IF THEY DO NOT REINVEST, move to question #65

63. Tell me about the kinds of things that you invest in for your business. (PROBE: equipment, training, inventory, supplies, etc.)

64. About how much money do you put back into your business each month?

65. What are your goals for your business for this next year?

66. What problems do you have to solve in order to reach those goals?

67. How do you plan to solve these problems?

68. Besides your [PROGRAM NAME] loan, do you have any other business debts? (PROBE: loans from family and friends, credit cards, bank loans, lines of credit with suppliers)

69. Do you have a separate bank account for your business?

70. IF YES, how long have you had it?

71. Do you have a personal savings account or checking account?

    IF YES, continue with question #72
    IF NO, move to question #74

72. How long have you had it?

73. What are you saving for?

74. Do you own your home?

75. Do you pay taxes on your business?

76. Is your business licensed?

77. IF YES, what was the process of becoming licensed like?

Other Employment / Employment History

78. What kind of work do you do? OR

    What kind of work did you do?

79. What are the advantages and disadvantages to working compared with running your business?

80. How much money do you make at your job? OR

    How much money did you make at your job?

81. How long have you worked at that job? OR

    How long did you work at your last job?

82. Do you get any benefits from your job? OR

    Did you get any benefits from that job?

83. How do you feel about your current job? OR

    Why did you leave your last job?

84. What kind of job would you like to have?

85. What other kinds of jobs have you had?

Global Impact

86. Do you belong to any groups or associations? (PROBE: for community groups, clubs, school- or church-related groups)

87. Do you belong to any groups that save or lend money? (describe these groups, if necessary)

88. Overall, have you been able to achieve the goals you set out to achieve when you started your business?

89. Why or why not?

90. In what ways do you think having a business has made a difference in your life?

91. In your opinion, what are the ingredients a small business person needs in order to be successful?

92. How do you define success, for yourself and for your business?

93. What kinds of resources could you use in order to make your business more successful?

94. How would you sum up your experiences?

95. How do you think things will look six months from now? A year? Five years? Ten years?

96. If you had to give advice to someone like you who was thinking about going into business, what would you tell them?

97. Is there anything I did not ask that I should have?

98. Do you have any other questions for me?

99. May I call you if I think of anything else I would like to ask you?

If you think of anything else you would like to tell me or add, you can leave a message for me at the [PROGRAM NAME] office.

Thank you very much for your participation. I very much appreciate your willingness to meet with me and to talk about your situation.

APPENDIX E

Description of Studies Cited in Chapter 2

INTRODUCTION

The ***Self-Employment Learning Project (SELP)*** was established at the Aspen Institute in 1991 with funding from the Charles Stewart Mott and Ford Foundations. SELP initially focused on five well-established programs. The Ms. Foundation joined SELP the following year, adding two programs from its Collaborative for Women's Economic Development. The SELP effort is currently studying the operations of these seven programs during a five-year period (ending in December 1996), generating and analyzing several data sources, including an interview-based study of 405 of the entrepreneurs served by the programs, a Program Profile that aggregates data on all program clients from each of the participating programs, and two sets of case studies of each agency completed in 1992 and 1994. SELP is important because it is the only longitudinal study of the microenterprise strategy; it is also noteworthy for its comprehensive look at programs, entrepreneurs, and businesses.

Self-Employment Investment Demonstration (SEID) evaluation. Beginning in 1986, the Corporation for Enterprise Development (CFED)[1], along with five states (Iowa, Maryland[2], Michigan, Minnesota, and Mississippi) cosponsored the Self-Employment Investment Demonstration (SEID), which allowed welfare recipients to continue to receive benefits for one year while they established businesses. SEID focuses on the entrepreneurs rather than the programs[3]. The purpose of the demonstration was to: 1) determine if self-employment could be a route to self-sufficiency for welfare recipients; and 2) identify policy barriers to economic self-sufficiency for this population (Raheim and Alter 1995). The primary evaluation of SEID consists of a post-program follow-up study conducted in 1994 to identify outcomes for a random sample

1. CFED is a national, nonprofit, economic development policy research, consulting, and demonstration organization. Its focus is on the development of innovative enterprise development strategies that simultaneously expand opportunity and competitiveness.
2. Maryland joined SEID in 1990, and is therefore not included in the studies cited here.
3. An additional report analyzing program costs is anticipated but has not yet been published.

of SEID participants who started businesses. A total of 1,316 people participated in SEID; 408 of those, or 31 percent, started businesses during the course of the program. The evaluation is based on a telephone survey of 114 of these individuals. Unfortunately, the evaluation fails to account for those who did not start businesses. The design of the demonstration and the follow-up study also severely limit the applicability of the findings. The authors of the evaluation acknowledge that SEID "did not permit random assignment. Individuals self-selected to participate in SEID. Consequently, findings from the demonstration cannot be generalized to the AFDC populations in participating states" (Raheim and Alter 1995: 3). In addition, SEID did not employ a control group, which makes it impossible to confirm the link between program participation and reported changes, such as exiting welfare.

Small Steps Toward Big Dreams series. The series is based on annual surveys of the programs funded by the Charles Stewart Mott Foundation.[4] The Mott Foundation published the first report in this series in 1990; subsequent updates have been published annually from 1991 through 1994. The Mott Foundation is also one of the earliest and largest private funders of the U.S. microenterprise movement. The original 1990 report surveyed 21 microenterprise programs; that number had grown to 31 by 1994, the year of the most recent Update. Four of our case study programs—ISED, NEF, and Working Capital, and WESST—were included in this study. The survey collected information in the following four areas: the financial status of each organization; their management practices or business strategies; the impact of each program on individual customers or the community; and the issues that each program has faced in developing its program. The Mott studies focus on program data, although some data on entrepreneurs was also collected.

Micro-Enterprise and Women report. Recognizing the significance of microenterprise programs' overwhelming focus on and use by women, the Institute for Women's Policy Research (IWPR) recently conducted a study using data from the Survey of Income and Program Participation (SIPP), a national sample survey, and from in-depth interviews and focus groups. This study "investigates the impact of self-employment and micro-enterprise as strategies to enhance the income package of AFDC recipients and other low-income women" (Spalter-Roth et al. 1994, 3). The goals of this study bear a striking resemblance to those of the SEID project: 1) "to investigate whether there is a pool of current welfare recipients with self-employment experience and, if such a pool exists, to investigate their characteristics and the characteristics of their businesses;" and 2) "to examine program changes and policy alternatives that could increase the use of micro-enterprises and the success of these enterprises as part of an income package" (Spalter-Roth et al. 1994, 14). The research design of the IWPR study is more sound than that of the SEID study, however, making the results of the former more reliable[5]. During the period in which data were collected, very few microenterprise programs existed, making it unlikely that the women included in this study had participated in microenterprise programs. Therefore, while the study provides some very useful information on self-employment and the women who pursue it, it sheds little light on the effectiveness of microenterprise programs. The IWPR study focuses on women entrepreneurs and their businesses.

4. The actual research and writing have been contracted out to the Corporation for Enterprise Development.
5. The primary target group of the IWPR study was women with some self-employment experience who receive means-tested transfer payments. In order to investigate the likelihood that this group can successfully pursue self-employment as an income-generating strategy, IWPR compared this target group (self-employed current welfare recipients) with three other sample populations: self-employed former welfare recipients; wage or salary packagers; nonemployed welfare recipients (Spalter-Roth et al. 1994, 16).